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Senate. Committee on Interstate Commerce

Refunding of Railroad Debt.

67-1

pt. 1-2

REFUNDING OF RAILROAD DEBT

HEARING
BEFORE THE
COMMITTEE ON INTERSTATE COMMERCE
UNITED STATES SENATE
SIXTY-SEVENTH CONGRESS
FIRST SESSION

ON

S. 2337

A BILL TO AMEND THE TRANSPORTATION ACT, 1920,
AND FOR OTHER PURPOSES

AUGUST 9, 10, AND 11, 1921

PART 1

Printed for the use of the Committee on Interstate Commerce



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REFUNDING OF RAILROAD DEBT.

TUESDAY, AUGUST 9, 1921.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met, pursuant to call, at 11 o'clock a. m., in Room 410, Senate Office Building, Senator Albert B. Cummins presiding.

Present: Senators Albert B. Cummins (chairman), Townsend, La Follette, Pindexter, Watson, Kellogg, Fernald, Smith, Pomerene, and Pittman.

The CHAIRMAN. The committee will come to order. Two days ago Senator Townsend introduced the bill No. S. 2337, to amend the transportation act and also the War Finance Corporation act. I will place the bill in the record.

"A BILL To amend the transportation act, 1920, and for other purposes.

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 207 of the transportation act, 1920, is amended by adding at the end thereof two new subdivisions to read as follows:*

"(h) Any bond, note, or other security, acquired under the authority of this section after this subdivision takes effect, may, at the option of the President, (1) bear interest at a rate of 6 per cent per annum, and in such event shall be received at par less such discount as may, in the opinion of the President, represent the customary and reasonable expense of marketing such bond, note, or other security; or (2) bear interest at a rate less than 6 per cent per annum, and in such event shall be received at a price to yield an annual average return, including interest and appreciation, if held to and paid at maturity, of 6 per cent of such price, such price to be subject to such further discount as may, in the opinion of the President, represent the customary and reasonable expense of marketing such bond, note, or other security.

"(i) The President may readjust any final settlement made with a carrier before this subdivision takes effect, for the purpose of funding, in accordance with the provisions of this section, any indebtedness of such carrier to the United States existing before such settlement was made, arising out of additions and betterments made during Federal control and properly chargeable to capital account."

"Sec. 2. That the War Finance Corporation act, as amended, is further amended by adding at the end thereof a new section to read as follows:

"Sec. 22 (a) The corporation may purchase from the President and the President may sell to the corporation any bonds, notes, or other securities acquired by the President either before or after this section takes effect, under authority of the Federal control act, the transportation act, 1920, or the act entitled "An act to provide for the reimbursement of the United States for motive power, cars, and other equipment ordered for railroads and systems of transportation, and for other purposes," approved November 19, 1919, at an aggregate purchase price not exceeding \$500,000,000. Any such securities shall be purchased at the prices, and subject to the discounts, if any, at which acquired by the President.

"(b) Wherever, in the opinion of the board of directors of the corporation, market conditions justify, any such bonds, notes, or other securities, acquired by the corporation under this section, may from time to time be sold, marketed, or disposed of by the corporation at not less than the original cost thereof to the corporation.

"(c) Any such bonds, notes, or other securities, not purchased by the corporation, may, at the request of the President, be sold, marketed, or disposed of by the corporation, as selling agent, at not less than the price at which originally acquired by the President.

"(d) The corporation may employ for the purposes of this section such agents or agencies as it deems necessary.

" '(e) The funds of all bonds, notes, or other securities, sold by the President to the corporation or by the corporation as selling agent, shall be a fund to be used by the President for the purposes described in section 202 of the transportation act, 1920.'

" '(f) Whenever used in this section the term "President" includes any agent or agency designated by him under the authority of any of the acts specified in subdivision (a).'"

The CHAIRMAN. It is understood that Senator Townsend introduced the bill at the request of one of the executive departments, and that, as a matter of fact, it was prepared in one of the departments. I think Mr. Meyer, of the War Finance Corporation, has had much to do with the preparation of the bill, and he has been called this morning for the purpose of making a statement upon it. He requests that he be permitted to make the statement without interruption, and that when he has made his statement, that then whatever questions the members of the committee may desire to put to him shall be put to him.

Proceed, Mr. Meyer.

STATEMENT OF EUGENE MEYER, JR., MANAGING DIRECTOR WAR FINANCE CORPORATION, WASHINGTON, D. C.

Mr. MEYER. The reason, gentlemen, why I ask to be allowed to finish my statement without interruption is because I find that frequently I anticipated many of the questions that may be asked, and I think that is the most expeditious way of presenting the matter. I shall be glad to answer questions, so far as I am able, in due course.

The bill before us amends the transportation act in very simple respects. It merely provides that there may be a modification of the terms on which the President takes securities representing indebtedness from the railroads to the Government under powers already existing; that is to say, he has powers now to take securities. This first provision modifies the terms. It is done for this reason. In the first place, if the railroads were selling their securities in the normal way through their banking distributors to the public and investors, there would be a charge for the distribution. If the United States Government is to realize on these securities, the cost of distribution must be paid by somebody, and it seems only fair that the railroads whose obligations are involved should stand the burden, even where the Government intervenes temporarily. It will facilitate the marketing of securities for the Director General or for the War Finance Corporation, if this bill is passed, to be able to pay the reasonable cost of distributing the securities to the investors.

The bill also provides that the President may take securities not only at par with 6 per cent interest but, in the case of securities bearing a lower rate of interest, at such a discount as to make, in effect, the net cost of the funds to the railroads 6 per cent, through amortization plus the interest.

The other provision modifying the transportation act permits the President to take the same action, so far as funding is concerned, with reference to the roads which have already settled with the United States Government as is authorized to be taken in connection with the roads which have not yet done so. Perhaps the Director General, or some other officer of the Government in more direct contact with railroad affairs, could go into these particular matters more fully.

Section 2 modifies the War Finance Corporation act and authorizes, in section 22, paragraph (a), the selling by the President of the securities which the President, either before or after the act takes effect, acquires from the railroads. And it also authorizes the War Finance Corporation to purchase securities from the President at the same prices at which he takes them from the railroads, the securities to be sold by the President at not less than the cost to the United States Government, and to be sold by the War Finance Corporation at not less than the cost to the War Finance Corporation.

Paragraph (b) authorizes the resale, at not less than cost, of the securities which may be taken from the President whenever the market conditions permit and justify.

Paragraph (d) authorizes the corporation to employ such agencies as may be necessary to help in the marketing of the securities.

Paragraph (e) disposes of the proceeds of the sale of securities by the President in accordance with the terms of section 202 of the transportation act.

The last paragraph simply defines the term "President" as including any agent or agency designated by him.

In effect, this bill, if passed, would largely be a revival of the powers given to the War Finance Corporation in section 9 of its original act, under which, during the war and subsequently, it loaned and agreed to loan considerable amounts to railroads. It

is true that under the present bill the War Finance Corporation will not deal with the railroads. The railroad business rests with the Director General or the President under existing authority, and our power would be limited to buying such securities from the President as might seem to be safe and sound.

Previously, the War Finance Corporation, when Mr. McAdoo was Secretary of the Treasury and Director General of the Railroads, agreed to advance up to \$100,000,000 on railroad securities, at his request. The actual loans were made subsequent to Mr. McAdoo's resignation as Secretary of the Treasury, but while he was still Director General, to the amount, I think, of about \$70,000,000, more or less.

In March, 1919, on the failure of the required appropriation, the War Finance Corporation was called upon to advance considerable sums to the railroads, and this was done on certificates representing the obligation of the Director General of the Railroads to pay the roads their compensation under the Federal control act, when Congress made the necessary appropriation. This appropriation was provided late in the Spring of 1919, and all the loans thus made were paid off and liquidated.

It was an interesting situation, because it was not clear at the time just how the railroads were to be kept in funds to maintain operations, let alone to make payment of interest on first mortgages and other securities held by trustees and savings banks all over the country. We suggested the plan that was adopted, and it was successful not only in that it met the emergency, but also that it met the emergency with the minimum use of War Finance Corporation funds. I think that, while the certificates issued at that time by the Director General aggregated \$290,000,000, the War Finance Corporation actually advanced to the railroads only \$65,000,000. We were able then to secure the cooperation of the bankers of the country generally, as well as of those railroads which were able to finance themselves through banks on their own credit, and of large manufacturing companies which had contracts with the Director General for the construction of equipment. In the beginning the bankers and the railroads asked the War Finance Corporation to undertake the first burden entirely. We had a limit, not of funds, but of authority, available in connection with advances under section 9 of a little over \$300,000,000. It was suggested that the War Finance Corporation use \$300,000,000, and that later the matter could be taken up with the bankers. I personally asked the bankers and the railroads to cooperate on a plan which was certain to meet the situation, so that, estimating a need—before Congress might meet and provide an appropriation—of a total of \$800,000,000, we agreed to lend, roughly, three-eighths of the current needs monthly. As a matter of fact, we did not even lend that much proportionately. The bankers cooperated on that occasion in a very helpful way, and so did the railroads and the industrial manufacturing companies which took the obligations of the Director General.

Under this bill, however, as I have stated, there will be no transactions between the War Finance Corporation and railroads. The only securities we would purchase would be those taken by the President in settlement with the railroads for their additions and betterments account.

The funding of additions and betterments by the Government was contemplated at the time of the passage of the War Finance Corporation act, in April, 1918, because in section 9 of that act there is a specific mention of loans to railroads in connection with additions and betterments. Additions and betterments, it was recognized, were necessarily capital expenditures, whereas the other accounts were matters of current income and expense; capital expenditures must be financed either through the investment market or through some other agency.

Not only was the funding of improvements and betterments mentioned in the original act, but it was mentioned in connection with an exception to the terms of the rest of section 9 in order that more favorable consideration might be given to the funding of additions and betterments. While loans to railroads, as to all other borrowers under the terms of section 9 required a margin of security of 25 per cent above the principal amount, an exception was made in connection with railroad loans involving the funding of additions and betterments on which that margin of security was not to be exacted. However, during the term of the war powers and until the end of July, 1919, when demobilization had been practically completed, we made no loans under that particular authority. We were not asked to do so.

Capital expenditures can not be offset in the balancing of operating accounts, rents, taxes, and similar charges. They always have to be funded, and normally, of course, they are funded through the investment market.

In connection with the problems involved in the settlements between the Railroad Administration and the railroads, this question has been discussed widely for some time. And it was proposed from many directions that an appropriation should be asked of the Congress to bring about the funding of the betterments and improvements, permitting the director general to settle the indebtedness of the Government on current account in cash.

It does not seem to me that an appropriation is either necessary or advisable. I say that because I believe the War Finance Corporation can intervene in the present situation, in a temporary way, and help to restore the normal functioning of the railroad investment market. I do not mean by that that there is any power in the War Finance Corporation to accomplish the impossible or even the extraordinary. But I believe that the tendency is already in the direction of an improvement in the investment market for railroad securities. And I believe, also, that our plan of intervening temporarily holds out sufficient promise of success to justify it, and I think that it is the better way, because it is on the line of march toward the normal.

In effect, what is proposed here is the financing of the needs of the Railroad Administration, and, through it, of the needs of the railroads, by the temporary use of the resources of the corporation, by which I mean its power and influence in restoring railroad credit along sound lines as well as the use of its funds.

I cited a moment ago an illustration of the intervention of the War Finance Corporation in the spring of 1919, where the use of \$65,000,000 made available a total of \$290,000,000. There were numerous other instances where the intervention of the War Finance Corporation, with its willingness to help, made available resources in the investment market or in the short-time banking market.

I remember one instance of \$15,000,000 owed by a railroad on loans which the bankers were unwilling to extend; we intervened and said that we would lend what would be necessary, but at the same time we called in the bankers and asked them to see if they could not arrange extensions. In the end we did not have to lend anything.

In other cases we intervened, and, by offering to take care of the railroad needs but requiring that they do their best in the investment market and with their bankers or any other bankers, we were able to reduce very materially the need for our funds.

It is of interest, perhaps, to inquire why railroad credit is not at the moment particularly good, why funds can not be raised in the investment market in the normal way. I think the principal reason for the depressed condition of railroad credit may be attributed to the operating accounts of the railroads for the past six or eight months.

Normally, the first six months of the year is the period of low earnings for railroads, because the gross traffic is less. An extreme instance would be the Great Northern Railroad, which hauls in tons in March perhaps 50 per cent of what it hauls in October. That, as I say, is perhaps an extreme instance, but all railroad tonnage is apt to be very much lower in the first six months of the year than in the second.

We have been passing through an acute commercial contraction, even perhaps a crisis, in the first six months of this year. This has reduced the gross business of the railroads to figures which prevented their making the sort of a showing in their net earnings that would be regarded by the investor as an indication of a sound basis for safety in railroad investments.

That condition, I believe, is improving. I think the gross business of the railroads as a whole is on the mend. There may be exceptions in certain territories where steel and iron and coal and coke business is specially depressed at the present time, but, on the whole, the gross tonnage is being restored. And I believe that the restoration of the gross tonnage on the railroads as a whole will result in a restoration of gross earnings, and also of net earnings, which will mean, within a reasonable time, the restoration of railroad credit.

The net earnings, as reported, are already improving. But it must be remarked that the recent increases in net earnings through decreases in operating expenses have been achieved, to no inconsiderable extent, by what is known as "skinning" the maintenance accounts. While the lack of cash funds made that a matter of necessity, not of choice, we can not contemplate a continuance of that undermaintenance on the part of the railroads, because it would ultimately mean, if continued, a breakdown of our entire transportation system, physically as well as financially.

The statement of the director general showed that the railroads were behindhand on audited vouchers some three hundred million dollars. I know that many of the railroads are postponing every dollar of maintenance expense that they can and are repairing cars only to the extent that it is necessary to get them through to destination. With the increasing volume of business that comes in the fall, there is even some risk that, in spite of the fact that there are a large number of idle cars, we may find a little later, in the fall and winter, a shortage of cars in good order for transportation purposes to carry the country's business.

I would like to say a word here regarding the funds involved in this measure. The War Finance Corporation was created with \$500,000,000 capital, all of which was paid in and is now intact. Four hundred and three million dollars of these funds are on deposit with the Treasury to the credit of the corporation. The earnings of the corpo-

ration are invested, for the most part, in Treasury certificates, some \$32,000,000, and the balance of its funds are invested in the loans made during the war and since, under the war powers and under the export financing authority. The funds that the War Finance Corporation might need, therefore, would be obtainable either from its credit with the Treasury or from its own bonds, which it has power to issue and which it did issue, in March, 1919, to the extent of \$200,000,000.

Senator POINDEXTER. What is the limit of authority to issue bonds?

Mr. MEYER. The authority to issue bonds under the original act fixed the limit at \$3,000,000,000, but that authority was given in connection with our war powers and in contemplation of a long war and, possibly of very large needs for rediscounting for banks. While the limit still remains at \$3,000,000,000, there is no authority to use any such sum. So, of course, no such amount of bonds would ever be issued. I believe that the market will take any amount of War Finance Corporation bonds that may be issued under this authority, or under the provision now being considered by the House in connection with the measure passed by the Senate the other day for agricultural relief.

In practice, if this measure is passed, we should, as a matter of policy, endeavor to raise funds from the investment market to a considerable extent. There are already in the possession of the Government a large quantity of railroad securities, and there is particularly an issue of equipment trust certificates, aggregating \$322,000,000 which the President holds under authority passed by Congress a year ago.

I believe that, with the help of the War Finance Corporation, and with proper authority to sell, which we have incorporated in this bill, and which does not now exist, a market may be found for some of these equipment trust securities. I think there are perhaps other securities, now in the possession of the Government or to be taken by the Director General in further funding operations, which under this bill or other legislative authority might be sold gradually in the investment market. I believe that, during the next six or eight months, very considerable amounts could be marketed if the present tendencies toward improved gross and net earnings of railroads, easier money in the investment market, and therefore improved prices for all forms of investment securities continue.

The Ways and Means Committee of the House asked me the other day to appear before it for the purpose of testifying as to what funds should be provided by taxation in connection with this proposed legislation, and I stated that, in my opinion, with the improving gross and net earnings of the railroads, with this legislation enacted so that they would be put in funds to pay their bills and go ahead with their improvement work, with the stimulus to the general business of the country which comes from activity on the part of railroads in purchasing, and if the Congress would see fit to adopt the recommendations which the Secretaries of the Treasury have made with regard to the reduction of the upper brackets of the surtaxes, I would be justified in saying that, between now and June 30, this measure not only would involve no funds which the Congress would have to supply in one way or another, but that, on the other hand, we may be able to get out of the investments now held by the Government some very considerable amounts to return to the Treasury. That, of course, gentlemen, is a matter of the future, but I feel confident that the statement is justified.

I have examined not only the equipment trust certificates, but also the amounts that the railroads owe in connection with improvements and betterments, and I am glad to say that the larger amounts are owed by railroads whose credit, perhaps, will be the first to be restored and, therefore, whose financing in the investment market should be most easily accomplished.

The present equipment trust certificates, held by the Director General, provide that the Director General may take the last five installments out of the 15-year certificates, subordinate them, and sell any part of the first 10 years as a first mortgage. That was done because it was realized that the equipment was bought and mortgaged at a price that would probably be above the market when railroad equipment declined in cost, as it has already.

Now, the passage of this bill in itself would be beneficial on railroad credit. In fact, the President's message and the possibility of this action already has had considerable effect on the market for railroad securities.

It is, furthermore, of importance in its possible effect on the industry and labor of the country, because the railroad purchases, when they are proceeding at a normal pace, are a very large factor in our total industry and, therefore, in the employment of labor. It is estimated, I think, that some 200,000 additional men would be immediately put to work by the railroads on maintenance of way and maintenance of equipment, if funds were available. But that figure refers only to the labor employed directly in connection with maintenance. Repair work on cars in outside shops and new car orders also are important items.

I have made some inquiry in connection with the equipment industry. I find that the locomotive shops are working at 20 per cent of normal capacity, the car shops at about the same percentage. A little business for foreign orders and a little of the inevitable and absolutely essential repair work is about all they have.

Large quantities of coal, fuel oil, iron, steel, lumber, and other materials are involved in the restoration of the railroads to their normal purchasing power. The extent to which employment of labor is involved would be very difficult to estimate, but to say that the employment of 1,000,000 men during the coming winter is at stake by the passage of some measure of this kind, or of some other measure that will produce the same result, I think is a very conservative estimate. The general effect on the commerce of the country would be most important; with \$300,000,000 of unpaid audited vouchers now due by the railroads, it is apparent that the translation of them, through railroad supply firms to other people and other business, would make the total amount of frozen bank loans involved in this unpaid account of \$300,000,000 very much larger.

It is estimated, roughly, that in normal times one-sixth of the entire production of this country has been devoted to the extension of plants, and, of course, one of our plants that has suffered most during the war and afterwards has been the railroad plant. There has been practically no extension of railroad plant in proportion to the growth of the country or the needs of the people. It might interest you to know at this point that the average construction of railroad mileage for the past four years was 675 miles. For the last year, 1920, it was 314 miles, against a 20-year average of 3,128 miles. The industry as an industry has been stagnating.

The bill passed by the Congress, which was intended to rehabilitate the railroads, failed, in my opinion, to do so as promptly as might have been expected, largely on account of the collapse in general business and the resulting loss in tonnage. A factory may operate and pay expenses at 70 per cent of its normal volume, but on account of the very large amount of fixed charges, and of inelastic charges that can not be reduced materially, regardless of the volume of business, the railroads are not in that position. I do not think, therefore, that the transportation act has had a fair trial, and I do not believe we can generalize as to the results that we may expect from the conditions which we have been undergoing.

Involved in the question of the employment of labor, which I think is very much interwoven with this or some other measure that will accomplish the same result, is the market for agricultural products. With labor fully employed, we will have a larger consumption of cotton goods, woolen goods, and food products.

The effect on the banking system is of the greatest importance, because the restoration of the credit of the railroads means the restoration of the investment values of the savings banks and the great fiduciary institutions that hold railroad investments. The liquidation of large amounts of frozen loans would permit the banks now holding these loans to reemploy the funds for new activities.

The effect on the Government revenue, if this would revive business substantially, is of course another important factor. Taxes must be collected out of income to a great extent in this country, and if, without using any improper method, we can do anything to restore business, we are restoring Government revenues.

And, gentlemen, one of the most important results that, I think, would come from the restoration of the financial condition of the railroads so that they could pay their bills and do their improvement work, would be a more prompt reduction of rates than can be expected under present conditions. I believe that, with the restoration of gross and net earnings which would come from a restoration of general business, material reductions in the rates, especially in some rates, and on certain commodities, and in special territories, ought to follow. I think that, as soon as the railroads' business is restored, they will want to reduce their rates as a matter of good business, but, in any event, there is ample power in the Interstate Commerce Commission to regulate rates in such a way as to keep the earnings of the railroads within reason.

I would say that the general condition of the country is now improving steadily. There is a great deal of pessimism, but that does not deter me from saying that, in spite of the pessimism, we are on the upgrade.

I think that this measure, if passed, will accelerate the restoration. Time is a very important factor in this restoration, because of the coming on of winter, and the great degree of unemployment in our industrial labor. If we can put our industry to work, and do it with reasonable promptness, we will avoid much suffering and much economic loss during the coming months.

This measure, I believe, together with the agricultural relief that promises to be furnished by the bill just passed by the Senate and now under consideration in the House, would mean the end of the period of contraction and liquidation which we have been undergoing for the past year and a half. I do not mean by that that we will

jump into a period of violent activity, but I believe that it will mark the beginning of the real reconstruction. And as I have said, it would mark the beginning of the return of capital funds to the improvement of the plant that we need to improve and expand in this country.

Agriculture has been occupying my mind almost to the exclusion of all other matters during the past year. And yet we must recognize that agriculture can not be made prosperous merely by lending it money to carry commodities. Financing agriculture is of vital importance, but the market for agricultural products is even more important, and the industry of the country must be restored simultaneously with agriculture, or it can not be done at all in either case.

Transportation efficiency is vital to our industry and to our agriculture. It is fundamental. And labor must be fully and productively employed in order to produce what we call national prosperity.

I feel that this problem is essentially a national problem. The railroads are a national asset if they are properly managed, and it seems that there is ample power in the Government, under existing law, to see that they are managed in accordance with the public interest.

This bill contemplates no gift. It proposes to get the best security. The Director General now must get the best security he can get, and as far as the War Finance Corporation is concerned, it does not propose to take from anybody securities which, in its judgment, are not absolutely sound. And, furthermore, all the securities taken would be taken with a view to the promptest possible sale in the investment market. The power, the influence, the standing, as well as the funds of the corporation, could, I think, be used to assist in restoring railroad credit on a very large scale if this measure is passed. The history of the corporation has been that it has used the minimum of Government funds and obtained the maximum of cooperation from the bankers and the investment market. It would be the endeavor of the corporation, if this power is granted or intrusted to it, to proceed in accordance with its established policy, and I believe that results of the most helpful character to all of the people of all sections of the country might be obtained.

Mr. Chairman, I would be glad to answer any questions.

The CHAIRMAN. Senator Townsend, do you desire to make any inquiries of Mr. Meyer?

Senator TOWNSEND. There are some things connected with the proposed bill which your statement has clarified a little bit. One of them was—and that question is being asked by nearly every one who has given any consideration to it—to what extent is the Public Treasury to be obligated in these transactions which you propose shall be made by the War Finance Corporation? Now, I understood you to say a few minutes ago that you already have to your credit appropriated to the War Finance Corporation, set aside to that corporation, something over \$400,000,000. Is that correct?

Mr. MEYER. That is correct, Senator.

Senator TOWNSEND. That money can not be used for any other purpose?

Mr. MEYER. By the War Finance Corporation?

Senator TOWNSEND. By the War Finance Corporation?

Mr. MEYER. Well, our funds are on deposit with the Secretary of the Treasury—with the Treasurer of the United States—and they are lumped with the general funds.

The War Finance Corporation, under its existing powers in connection with export trade, could draw on any or all of that money at any time by a resolution of the Board of Directors. The Government bought or subscribed to the capital stock of the corporation to the extent of \$500,000,000. At one time the entire sum was engaged either in loans for war purposes or invested in Liberty bonds or Victory notes. We had large transactions in the Government bond market during the war and subsequently, and then, as we liquidated our loans and our holdings of Government bonds, we accumulated cash and it was thought that we could do no better than to deposit it with the Treasurer of the United States, without interest, of course, to the War Finance Corporation.

Senator TOWNSEND. This corporation does not make money out of the interest on the money which it received?

Mr. MEYER. Well, the interest on the loans accrues as earnings.

Senator TOWNSEND. To the corporation?

Mr. MEYER. Yes, sir. At the present time we have about \$100,000,000 of loans, and the interest on these loans, as collected, accrues into the surplus or earnings fund of the corporation.

Senator TOWNSEND. Now, is it proposed under the one section of this bill here to make a settlement and adjustment of the accounts between the railroads and the Government?

Mr. MEYER. The settlements between the Government and the railroads are provided for under the railroad legislation already enacted, with authority to fund betterments and improvements if the Director General sees fit.

Senator TOWNSEND. Well, now, I understood from the President, and that was conveyed clearly in his message to the Congress, that one of the objects of this legislation is to effect a settlement with the railroads, determine some of the possible claims which the railroads may have against the Government.

Mr. MEYER. The settlements are under discussion all the time, Senator, and, as the Director General is able, he takes up each account with the railroads, as I understand it, and settles in accordance with the facts and figures, either by agreement or, if they can not agree, by resorting to the other methods of settlement provided in the act, whatever they may be.

But I suppose that the ability to fund and the willingness to fund on the part of the Director General—I do not want to speak for him, and I think you should ask him this—will be connected with the proper settlements by the railroads.

Senator TOWNSEND. Did those who drafted this bill contemplate a settlement of these claims before these securities are sold?

Mr. MEYER. Yes, sir; I so understand. Of course, as far as the equipment trusts are concerned, they are now in possession of the President, and would have nothing to do with any settlements. So far as any funding of additions and betterments by the Director General is concerned, my understanding is that an agreement on his part to fund would be connected with satisfactory settlements between him and the road in question.

Senator TOWNSEND. Is it your idea that you would use out of this \$400,000,000 such money as might be necessary, or would you sell bonds?

Mr. MEYER. We would do whichever seemed best in the judgment of the Secretary of the Treasury at the time. If we can market some of these securities promptly, it might not be worth while to issue bonds to cover a necessity which might be very short, and he might prefer to advance the necessary funds for a few months. On the other hand, he might prefer that we raise the funds through our own bond issues.

In the Agricultural bill which you have just passed, you authorize the War Finance Corporation to issue its bonds for as short a period as six months. We issued \$200,000,000 of one-year bonds in 1919 to meet the railroad situation at that time. The loans were repaid within four months and then we had outstanding a large amount of bonds running for a year with no particular need for the funds. The minimum period of maturity for our bonds has been shortened to six months in the bill which you passed, and that will enable us to raise the money needed outside of the Treasury, if the Secretary of the Treasury so prefers.

Senator TOWNSEND. What do you think of having a provision in this bill requiring that any money that will be used shall be obtained from the sale of bonds?

Mr. MEYER. It seems to me that it is better to leave it as it is now; that is, within the discretion of the Secretary of the Treasury. It is not so very important to make it mandatory. I see no particular advantage in it, Senator, because the Secretary of the Treasury would do it in whatever way he thought was to the best interest of the Treasury and the Government. Nothing was put in the bill, simply because it was thought to be unnecessary. The Secretary of the Treasury has full control over the matter. No bonds can be issued without his consent. Naturally, we would not be able to draw on the funds in the Treasury without his approval, so there could be no conflict between the Secretary of the Treasury and the War Finance Corporation, if you had that in mind.

Senator TOWNSEND. Yes. Now, have you looked into this railroad situation sufficiently to determine whether there is a crisis now on or before us in reference to the railroad problem, which must be settled by this or some similar action right away?

Mr. MEYER. Well, I would prefer that you ask the Director General and the Interstate Commerce Commission about that. My personal opinion is that there is an emergency. I think the fact that there are such large amounts of unadjudicated vouchers, and that, as I understand it, the railroads have been compelled to reduce their maintenance work to a dangerously low point—certainly in some cases—shows that there is an emergency. Now there is no doubt about the fact that the railroads have been compelled to reduce their buying to the lowest possible level, without regard to their necessities, without regard to what good railroad practice would demand as to the physical condition of the property, but only with reference to the deficiency in cash resources. Railroads that have never been behind in their payments are now behind, and very largely. I think that an emergency exists, if we consider that extensive unemployment of labor constitute an emergency; and I think that the passage of this measure, or some other similar measure, the restoration of railroad credit and finance,

and the ability of the railroads to purchase and to pay their bills, would be most important factors toward restoring prosperity.

Senator TOWNSEND. And you are firmly convinced that this is going to restore confidence in the railroad investment market?

Mr. MEYER. I think that conditions are already working in the right direction to restore railroad credit. I would not want to say that this measure, if enacted, is in itself going to do all of that, but the conditions are working in that direction now. The relation of increased gross to railroad credit, through its effect on net earnings, is a very important factor. I think that we can materially accelerate a resumption of business activity. Confidence is as important an item in railroad credit as in any other credit, and I think we can do a great deal to restore that. The fact that the railroads are going to be able to get money somewhere in case of need will make investors more willing to put their money in their securities.

Senator TOWNSEND. I do not want to occupy all the time, Mr. Chairman.

The CHAIRMAN. Is it the desire of the committee to remain in session after 12 o'clock?

Senator KELLOGG. I have to go to the Senate.

Senator SMITH. There are matters of such importance coming up that it would necessitate my going just now to the Senate.

The CHAIRMAN. It is about 12 now, and if that is the desire of the committee we must take an adjournment at this time until to-morrow, because I take it that other members of the committee will desire to ask some questions.

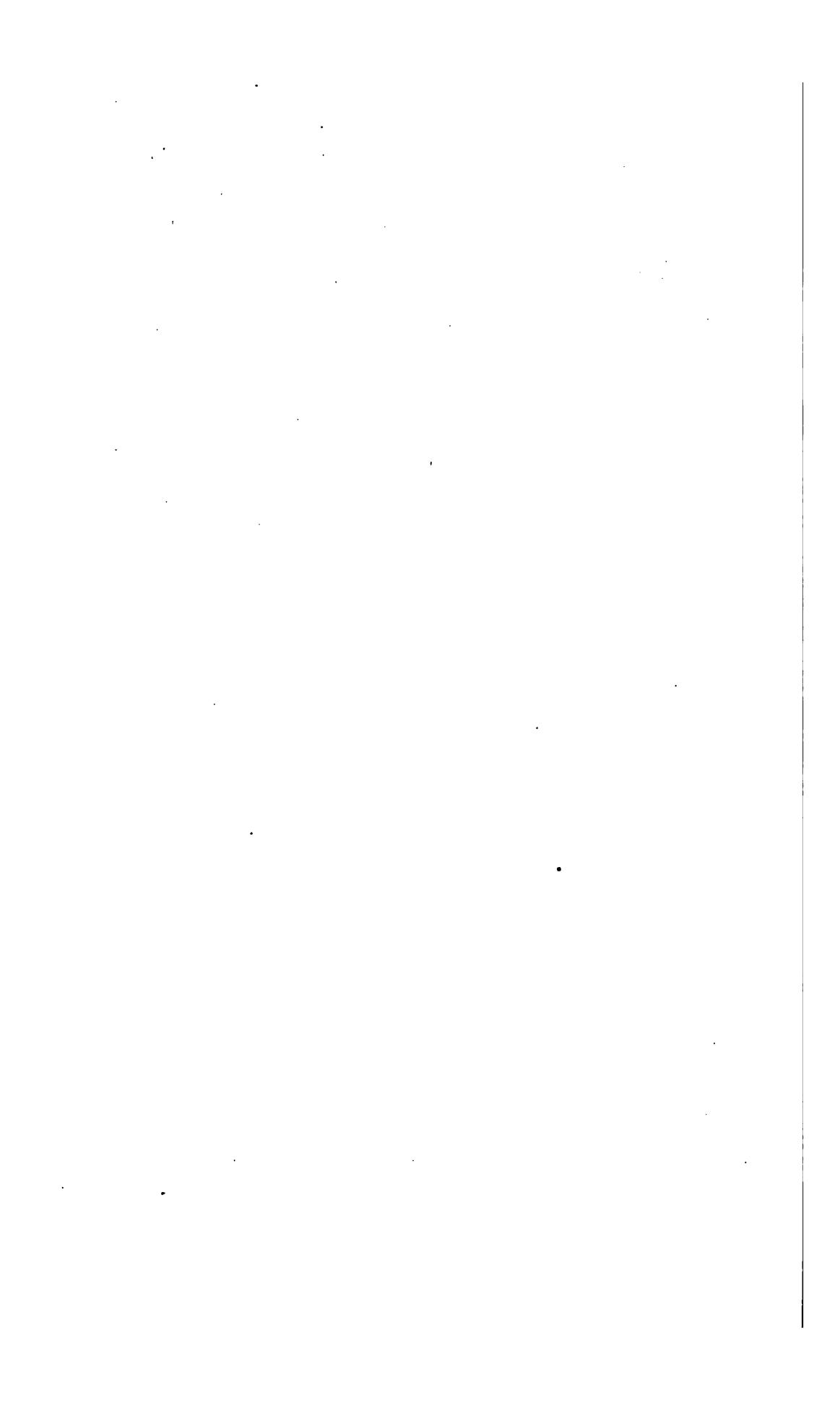
Senator TOWNSEND. I want to say to you, Mr. Chairman, what I have said to you already before. I took the liberty of inviting Mr. Meyer to come up here and also Mr. Davis, for the purpose of explaining a bill which was new to me. I did not assist in the preparation of the bill, it is known, and I wanted to know the emergency or the particular reasons that existed for the passage of this bill, and just what its proponents had in mind, and so I thought that for the committee to be able to consider even whether it wanted to go on with the question at all or not it would be important that we should know what the real situation is here. That was the object.

The CHAIRMAN. That was the right thing to do, but inasmuch as Mr. Meyer has opened up the subject he must, of course, be permitted to finish.

Senator TOWNSEND. Of course that is the only way we can get at it.

The CHAIRMAN. We will adjourn now until 10 o'clock to-morrow morning.

(Thereupon, at 12 o'clock noon, Tuesday, August 9, 1921, an adjournment was taken until 10 o'clock a. m., the following day, Wednesday, August 10, 1921.)



REFUNDING OF RAILROAD DEBT.

WEDNESDAY, AUGUST 10, 1921.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met, pursuant to adjournment on yesterday, at 10 o'clock a. m., in room 410, Senate Office Building, Senator Charles E. Townsend presiding.

Senator TOWNSEND (presiding). The committee will come to order. I want to say that Senator Cummins can not be here this morning. He is not feeling well. He may come in later, but he is not able to go on now this morning, but of course desires the committee to proceed with the subject under consideration.

STATEMENT OF EUGENE MEYER, Jr.—Continued.

Senator TOWNSEND (presiding). Mr. Meyer was on the stand yesterday, and when we adjourned it was with the understanding that the members of the committee would be given the opportunity to cross-examine him or ask him such questions as they desired to submit. I do not care to ask any more questions myself. Senator Pomerene, do you have any questions you wanted to ask of the witness?

Senator POMERENE. Well, there was one matter I think I asked the Director General of Railroads personally, after we had adjourned here, about, and that was to present the figures showing the amount which each of the several railroad companies owed to the Government for expenditures which went into capital account.

Senator TOWNSEND (presiding). Mr. Davis is here this morning, and later will be called.

Senator POMERENE. Then I will not go into that with Mr. Meyer.

There is just one thing that I wanted to make perfectly clear. It is, as I understand, the purpose of the War Finance Corporation, if this legislation is passed, to take from the director general, or in other words, the President, such railroad securities as they may have, for the purpose of aiding in the marketing of these securities?

Mr. MEYER. That is the intention, Senator. Such securities as they may have which, in the judgment of the board of directors, are good securities.

Senator POMERENE. I understand that.

Mr. MEYER. Not making it mandatory, but permissive.

Senator POMERENE. In other words, whatever you do in that behalf you expect to do in accordance with the principles of sound finance?

Mr. MEYER. That is correct.

Senator POMERENE. So as to avoid any possible loss in these investments, and all expenditures connected with your administration of these duties, if they are conferred upon you, will be borne by the railroads and not by the Government?

Mr. MEYER. We have provided in the act for the allowances which are customary and usual in commercial and financial practice for the distribution of securities.

Senator POMERENE. Yes.

Mr. MEYER. And the War Finance Corporation would pay the Director General the net cost to him?

Senator POMERENE. Yes. And your corporation will have nothing to do whatsoever with the adjustment of any financial differences that there may be between the railroads and the Government?

Mr. MEYER. The matter of the settlements is and will remain in the hands of the director general as agent of the President. It may be, Senator Pomerene, that the director general, in his settlements in connection with capital expenditures made in the course of the necessities of war, may have to take some securities that we would not be willing to take. He will get the best he can, but they might not be such as would appeal to us as absolutely good investments.

Senator POMERENE. Yes; I understand.

Mr. MEYER. Those we will not take.

Senator KELLOGG. Right on that point let me ask a question.

Senator POMERENE. Yes; certainly.

Senator KELLOGG. Mr. Meyer, this bill has nothing whatever to do with the relation between the railroads and the Government or the settlements between the railroads and the Government, as to the amount of the settlements, or anything of that kind?

Mr. MEYER. You are quite correct, Senator; it has nothing to do with those matters.

Senator KELLOGG. The only thing in this bill that affects those relations is that if the Director General should receive securities at less than 6 per cent he may take them by equating the interest, of course?

Mr. MEYER. Yes.

Senator KELLOGG. And if any commission is allowed the railroads stand it?

Mr. MEYER. That is correct.

Senator KELLOGG. But there is no other change whatever as between the relation of the railroads to the Government contemplated by this bill, isn't that correct?

Mr. MEYER. That is correct.

Senator KELLOGG. Now then, this bill simply authorizes, instead of carrying these securities in one branch of the Government, to turn them over temporarily to another branch of the Government to be sold?

Mr. MEYER. Yes; not only does it contemplate the taking over from the Director General of some of such securities as he may see fit to take in connection with the funding of the capital investments of the Government in the railroads represented by additions and betterments, but the bill also provides for authorization to the President or to the Director General for the sale of a number of other investments which the Government has made in railroads. Under the act of November 19, 1919, there is in the possession of the Government the equipment trusts which have been discussed. Under the transportation act of 1920, there are some \$89,506,000 of securities, and under the authority given by the transportation act of 1920 there were acquired, under section 210 of that act, one hundred and ninety-six million and some odd hundred thousand dollars worth of securities. Now, all of those securities are by this act authorized to be sold by the Director General.

Senator KELLOGG. Yes; I understand.

Mr. MEYER. So that, while that does not mean that they may be necessarily salable, it gives a liquidating feature to the Government's investment in the railroads entirely apart from the securities which it might take in connection with settlements in the future. It provides for the liquidation, in due course, of the money already invested by the Government in the railroads if and when and as the securities may be marketed. These to-day are frozen loans by the Government in the railroads. We propose to unfreeze them.

Senator KELLOGG. In other words, the transportation act authorized the Government to receive securities, but did not authorize the Government to sell them?

Mr. MEYER. Exactly, Senator. I understand there is some provision covering the sale of equipment securities in another act, and this bill would authorize the sale of other railroad obligations now held, or to be taken, by the President.

Senator KELLOGG. Now, you might have to carry some of these securities for a time in the War Finance Corporation?

Mr. MEYER. Yes; in order to market them, they will have to be marketed gradually, I should think. Nobody can throw hundreds of millions of securities on the market suddenly without breaking down the market.

Senator KELLOGG. That is all I wanted to ask you.

Senator POMERENE. I wanted to ask a question along that line.

Senator SMITH. May I ask him a question right on that point, Senator, to clear up a matter?

Senator POMERENE. Certainly.

Senator SMITH. Now, this liquidation or liquefying of the Government securities held by the Director General is for the benefit of the Government. That is, to get the Government in possession of the money that is tied up in these securities through the War Finance Corporation?

Mr. MEYER. Yes, sir; if and to the extent that it can be done, and as soon as it can be done.

Senator SMITH. Well, that is what I mean. That is the object of it?

Mr. MEYER. Yes.

Senator SMITH. Now, the next feature of this bill, as to the aid to the railroads.

Senator KELLOGG. There is no such feature of this bill.

Senator SMITH. Well, I understood him yesterday to say that the railroads would be aided if the War Finance Corporation were allowed under this bill to take certain

securities of the roads, and thereby encourage the investing public to take the securities which they otherwise might be slow to take.

Senator KELLOGG. I did not understand you, Senator.

Senator SMITH. I was trying to differentiate.

Senator KELLOGG. That merely enables the Government to pay its debts to the railroads.

Senator SMITH. No; I was trying to differentiate between the aid that the War Finance Corporation might give the Government through enabling it to liquidate its obligations to the roads, and then what aid it might give the railroads by taking certain securities.

Mr. MEYER. We have no relations whatever with the railroads under the act. Our relations are with the Director General, but by taking over temporarily, for the purpose of marketing later, some of these railroad securities, the Director General will be able to go ahead and make his settlements and pay his debts to the railroads on current accounts, setting aside the capital investment of the Government in the railroads.

Senator SMITH. Yes; I understand that, that you give the Government the cash to meet whatever other relations might arise between the Director General and the railroads, which you would not be able to do without him holding these securities in the form of bonds, which is not covered.

Mr. MEYER. Yes; and which he has no authority to sell.

Senator SMITH. Yes; I see.

Mr. MEYER. The President ought to have had the authority to sell these, but somehow or other he did not get it at the time.

Senator SMITH. Yes.

Senator POMERENE. Mr. Meyer, there is another matter that I want you to develop a little more fully, perhaps. Maybe your statement sets forth clearly what I have in mind. It is this: These securities which the Director General of the Railroads holds represent in part the amount which the Government invested in extensions or improvements of the railroads. That is correct, is it not?

Mr. MEYER. Yes, sir.

Senator POMERENE. And these investments and improvements which were for capital account were made by the Director General under the authority of Congress, and by his direction, without even, in many cases, consulting the railroads themselves as to whether they should or should not be made?

Mr. MEYER. During the war the additions and betterments to railroads were made regardless of the wishes of the railroads, because they were made from the point of view of military necessity.

Senator POMERENE. Yes; and they were made from a standpoint of military necessity, and without reference to whether those improvements would have been advisable as improvements during peace.

Mr. MEYER. I think that that is an absolutely correct statement, Senator.

Senator POMERENE. Yes. Now, then, in other words, this debt thus created was forced by the Government upon the railroads?

Mr. MEYER. The additions and betterments were made irrespective of the desire of the railroads.

Senator POMERENE. Yes.

Mr. MEYER. In some cases, I imagine they were in line with the normal peace requirements of railroads, but they did not have to conform to that criterion.

Senator POMERENE. Yes. I want my question to be construed as simply general in its character.

Mr. MEYER. Yes, Senator; that is correct.

Senator POMERENE. So that whatever may be done under this law, if it is passed, is to aid the railroads in getting out of financial difficulties in which they became involved by the Government itself? Is that correct?

Mr. MEYER. That, of course, is a matter of judgment, Senator. The relation of the railroads and the Government during the war and after is a rather complex matter. Some people think that the Government rescued the railroads, and others think that the railroads were greatly injured by the Government.

Senator POMERENE. Oh, yes.

Mr. MEYER. But you can not really classify the relationship under either of those heads. The railroads were an absolutely essential military necessity during the war and they were treated as such. Their business was administered by the Government from the point of view of the national needs. In many cases, it did the railroads no harm; in others, it did a good deal of harm. And, in some cases, it probably did some good in some respects.

Senator POMERENE. Yes. Now another question, and all my questions that I have asked thus far are preliminary to this. The statement has been made repeatedly

that this was a mere hand-out by the Government of \$500,000,000 to the railroads. What observations have you to make in that behalf?

Mr. MEYER. As I stated yesterday, there is nothing in the nature of a gift in the settlement of debts. The Director General is charged with getting the best security he can get. We shall certainly buy no securities that we do not think are safe, and we shall even buy them with a view to their marketability as well as their safety.

Senator POMERENE. And it is in no sense a gratuity that is being handed out to the railroads?

Mr. MEYER. Absolutely not. To the contrary, it is a settlement of existing indebtedness on both sides that will be facilitated, that is all.

Senator POMERENE. And is it not true that at the present time a large number of firms that are dealing in railroad supplies are not able to continue their activities because they are not able to collect from some of these railroads?

Mr. MEYER. That is true, Senator. The equipment companies, I think, as a whole, might be considered to be running at 20 per cent of capacity. I made an inquiry as to the accounts of the railroads with some of the supply companies, and I found that, in the case of one particular company, 85 per cent of the debts of the railroads were more than 30 days past due; 78 per cent were more than 60 days past due; 70 per cent were more than 90 days past due; 58 per cent were more than 120 days past due; and 24 per cent were more than 150 days past due. That I think is typical. And, of course if the companies do not get their money from the railroads, they can not pay to the people they owe. This situation creates a series of indebtedness and is responsible, to some extent, for bank loans that ought not to exist.

Senator POMERENE. That is all I care to inquire.

Senator SMITH. Mr. Meyer, I want to get clear in my own mind this whole question so that I can then subsequently deal with it. Senator Pomerene asked a moment ago about handing out a gratuity of \$500,000,000 to the railroads. The impression is amongst some that this is an indirect request on the part of the railroads for the Government to lend them in this emergency \$500,000,000. That when cleared of everything that is outstanding after that, the railroads are asking for the Government to take their securities, and through the War Finance Corporation, going through the Director General, perhaps, for them to take and finance that amount of their securities. Not based upon meeting any obligation of the roads to the Government, but simply to meet their current expenses which they are unable to meet, because of the difficulty in selling their securities in the investment market.

Now, I want to get this clear in my mind. I am not a financier, and I am not a railroad man. The Government, under the authority given it in the railroad act, went to work and put the roads in such shape as to do the necessary things to be done to carry on the war successfully. Whether that was with the consent of the railroads, the particular roads that were thus brought into that amount of indebtedness, does not have any effect upon this. It was done. Now, the amount of that, in round numbers, as I understand it, was about \$500,000,000, that was the amount that the Government spent to capital account in the improvement of terminal facilities, and so forth.

Mr. MEYER. Somewhat larger than that, Senator.

Senator SMITH. Well, let us put it at \$500,000,000 for the sake of what I am getting at. Now, in the settlement of that the Director General accepted the obligations of the roads against that indebtedness. The Government is holding that.

Mr. MEYER. If I may interrupt, Senator, I do not understand that the Director General has accepted the obligations. He simply charged them with the money that the Director General invested.

Senator KELLOGG. Oh, yes; he has accepted some of them.

Mr. MEYER. Mr. Davis, have you accepted any obligations in settlement of additions and betterments?

Mr. DAVIS, Director General of Railroads. Yes.

Mr. MEYER. Very few, though?

Mr. DAVIS. In exceptional cases we have funded additions and betterments. I think about \$60,000,000.

Mr. MEYER. That is only a small part of the total.

Mr. DAVIS. Yes; it is comparatively small. But we have accepted some.

Mr. MEYER. But this bill would facilitate the funding of the remainder, so far as seems necessary and advisable.

Senator SMITH. Well now, if this law permits him to do that, when he has accepted these obligations in the form of bonded indebtedness, or whatever form the Government and the railroads choose to fund this in, that does not give the railroads any money. That is simply accepting in this emergency their securities against their obligation to the Government. Now, it does help the Government, for when they

have accepted these, through the Director General, you are allowed to liquidate them for the benefit of the Government.

Mr. MEYER. Yes, sir.

Senator SMITH. That is clear and all right.

Mr. MEYER. That is right.

Senator SMITH. Well, now, the railroads are simply paying in notes or bonds or mortgages or whatever securities they offer, their indebtedness which they are unable to cash at the present time.

Mr. MEYER. That is correct.

Senator SMITH. Now wherein, in this proposed legislation, are the railroads to get any cash to meet what you said yesterday, \$3000,000,000 unpaid audited accounts?

Mr. MEYER. If the Director General is able to fund the capital expenditures made by the Railroad Administration for the account of the railroads, and if he can take bonds which he can sell to the War Finance Corporation or in the investment market, he will be in possession of funds to apply on his current accounts, which on balance, as I understand it, would be in favor of the railroads on the cash settlement, apart from the capital investments in additions and betterments.

Senator SMITH. In other words, the capital account expressed in additions and betterments that the railroads are owing to the Government—let us say they are \$500,000,000—the War Finance Corporation takes these and liquidates them. The Government then has \$500,000,000. Then the Government in turn lets the railroads have it to meet the expenses expressed here in this, and takes additional obligations?

Mr. MEYER. No; the money which the Director General would get in that way would enable him to expedite his settlements with the railroads on current accounts, apart from capital investments, in the form of additions and betterments.

Senator SMITH. In other words, the railroads taking capital account and other accounts, the Government is owing the railroads more than the railroads are owing the Government?

Mr. MEYER. Leaving out capital account, the Government would owe the railroads money on balance. And if we can finance for the Director General some of the capital investments, with a view ultimately to marketing those securities, he would be able to expedite the settlement of his accounts, such as his debts which are on balance to the railroads apart from the capital investment of the Government in the railroads, and that would put them in the possession of funds to pay their current debts and do the proper amount of repair work and maintenance in the normal way.

Additions and betterments are capital account. Railroad earnings are not sufficient to pay for capital improvements.

Senator SMITH. I understand that.

Mr. MEYER. Consequently, capital investments must generally be funded. There is not a favorable investment market to fund them in now, but I feel that it is developing, and I believe that it will develop more rapidly if we are put in a position to help it. Meanwhile the furtherance of the settlement by the Director General of his accounts, apart from additions and betterments, in cash will stimulate business, improve the earnings and credit of the railroads, and enable us to recover the funds we might temporarily advance them. In other words, the very employment of these funds temporarily will create an improved condition of railroad credit, which will enable the sale of railroad securities in the investment markets.

Senator SMITH. That is only incidental. What I want to get clear is the statement that has gone out that we are not to advance anything to the railroads. We are asking for no appropriation. We are asking for no funds, and yet there is involved something like \$300,000,000 that must come to the railroads from the Government. Now, put it as you have just stated it, the capital account is proposed to be settled by accepting the obligation in whatever form the Director General and the railroads see fit to agree upon. Now, that will be, though, in the form of paper. That is not cash. Now, the proposition is to take that capital account that the railroads or the Government allow you, the War Finance Corporation; to put it in the form of currency, and turn it over to the Director General, and he in turn, to be empowered to meet whatever subsequent indebtedness the Government has to the roads in the form of cash.

Senator KELLOGG. He is already empowered, Senator.

Senator SMITH. Well, if he is already empowered, then that is to give him the cash to do what he is already empowered to do.

Mr. MEYER. That is it exactly, Senator.

Senator SMITH. Well, now the question arises: Why do you separate the capital accounts that are due the Government from the railroads from anything else that is due the Government, or, vice versa, that is due the railroads from the Government? Of course, I am not an expert bookkeeper, but this thought occurs to me: If these mat-

ters are in such shape that they can be approximately arrived at, why not add up what is due the Government from the railroads on capital account and otherwise, and then what is due the railroads from the Government on capital account or otherwise? Of course, there is due them nothing on capital account, but there is due them otherwise. And strike the balance and let the Government know what is the status of the account between the railroads and the Government, and let us meet it.

Mr. MEYER. The capital account has to be financed. It can not be paid out of current income.

Senator SMITH. I understand that.

Mr. MEYER. Capital investments on the part of railroads could not be paid out of current income. It is inconceivable to imagine that railroads should earn enough to pay for the additions and betterments that they annually require. They have to be financed.

Senator SMITH. Mr. Meyer, you misunderstand me. I do not care; it does not concern me what form the settlement takes. Let us admit, for the sake of this situation, that we will accept from the railroads their securities and require no cash from them. Now, if when the final settlement takes place we are in debt to the railroads, they get the cash. I can see then a strong reason why we should allow somebody, either the investing public or you, to cash for the Government these obligations that it holds for the railroads and allow them to take that money and meet the balances that are due the railroads in cash. I can understand that thoroughly. But I can not see why it is not possible to take the account of the railroads and the account of the Government and balance one against another and know how much we will have to pay in cash to the railroads that we stand indebted to them for.

Mr. MEYER. That can be done as soon as the settlements in exact amounts are determined. But the settlements have not been agreed upon, Senator.

Senator SMITH. They have gone far enough to know that the Government is indebted to the railroads.

Mr. MEYER. Yes; but the exact amount has not been determined. It takes a long time. The Director General has shown me large books of account which, in order to do justice, he must examine with some care if he is to uphold the position of the Government in a proper way; and these settlements are being proceeded with as rapidly as his ability to arrive at intelligent understandings and agreements with the railroads permit.

You understand, I think, Senator, that permanent investment can not be deducted from current income. These additions and betterments which the Government made, and which the Government has charged to the account of railroads, is one form of financial transaction. The current income and expenditure is entirely different.

Senator SMITH. I understand that.

Mr. MEYER. If we were to reduce it to a very simple form of expression, we might say that you earn \$10,000 a year, and you want to buy a \$10,000 house, which a man with a \$10,000 a year income might be justified in buying. Now, if I took over that \$10,000 income of yours, built you a \$10,000 house, charged it to your income, and said that you and I were quits—"I have built you your house and I have taken your income for it"—what would you live on in the meantime? Capital investment must be financed by somebody. Ordinarily the investment market does it.

Senator SMITH. I understand that, and I understand that the railroads must be financed in that respect without taking it out of their current income, because they have to have liquid assets in the form of currency to meet their obligations. But the Government has got nothing to do with that. When the capital account has been settled, then the question is asked of the Government to meet these other obligations in cash, because it goes into the running affairs of the roads.

Mr. MEYER. That is correct.

Senator KELLOGG. But, Senator, may I interpose, that current account of cash or current earnings or part of it is what the Government owes the railroads during the war. That is what they propose to offset.

Senator SMITH. That is exactly what I am driving at. The Government does not owe them anything more now. I hope not.

Mr. MEYER. Mr. Chairman, I think that this bill, or a similar bill, if passed, will enable a more prompt settlement to be made, will stimulate the investment market, and will enable us to recover gradually, but fairly promptly, the funds that we turn over to the director general. As I said yesterday, and as I stated before the Ways and Means Committee, with continued improvement in gross and net earnings, with easier money, with tax adjustments which will make taxable securities more attractive to investors, I could with assurance say that by June 30 we could liquidate substantially all the securities representing additions and betterments which the War Finance

Corporation would take from the director general. And I might even go further and say that I think we could perhaps get additional funds by liquidating some of the other railroad securities which the Government holds. I discussed that matter yesterday with the Secretary of the Treasury, and he thinks that statement is warranted.

Senator PITTMAN. Mr. Chairman, may I ask a question?

Senator TOWNSEND (presiding). Yes.

Senator PITTMAN. I gather from Mr. Meyer's answer to Senator Pomerene that this was not considered in the nature of a loan, this funding of the capital account, or whatever it would be. And my mind is not clear on that. We will say that the current account due by the Government to the railroads is \$800,000,000, just for a matter of illustration, and that the capital account due by the railroads to the Government is \$500,000,000. If the railroads are solvent they would pay the Government \$500,000,000 and the Government would turn around and pay the railroads \$800,000,000, meaning that the Government would deduct the \$500,000,000 from the \$800,000,000, and they would only be paying the \$300,000,000.

But as the thing works out the railroads, being unable to market their securities and pay cash—\$500,000,000 on capital account—give their notes or bonds or other securities to the Government for \$500,000,000, and the Government turns around and pays the railroads the full \$800,000,000 on current account.

Now, it seems to me that the Government lends the railroads \$500,000,000 through that process. When it accepts their obligations for \$500,000,000 it is a loan, because they do not deduct it from the \$800,000,000 that they owe the railroads, but pay the full \$800,000,000 and hold the securities of the railroads for the \$500,000,000. Now, of course, if the Government is able to sell those securities for \$500,000,000, the Government will cease to be a creditor of the railroads, and whoever buys them will be, but until that takes place, certainly the Government, under this proposition, is lending the railroads this \$500,000,000.

Mr. MEYER. Senator, the Government already has invested that \$500,000,000 in the railroads. It is not any new money that the Government is lending to them. The Government during the war, for military purposes, invested that capital in additions and betterments for the account of the railroads, regardless of their wishes. For instance, this equipment matter which has been discussed involved the purchase of some 100,000 freight cars and some locomotives. The freight cars were purchased at a cost of \$3,000 a freight car, roughly. You can buy them now for around \$2,000. The railroads did not in all cases want to buy them. It was a military necessity during the war, in the opinion of the Railroad Administration. I may say that, although the cars were ordered during the war and in contemplation of war necessities, I think the railroads did not get any of them until several months after the armistice, so that they were getting railroad freight cars at 50 per cent above the present prices on the ground of the necessity of war, six months after the war had come to an end. That is merely an example of the purposes of the Government in putting capital expenditure into railroads.

Senator PITTMAN. I do not want you to understand, Mr. Meyer, or the committee, nor do I wish any one to be under the impression that I am discussing the merits of it. I am simply discussing the construction. While it is true that the Government has already loaned to the railroads the \$500,000,000, it proposes to reloan it to them, in other words. In other words, they do not intend to demand the cash because they can not get it.

Mr. MEYER. Exactly, they can not get it.

Senator PITTMAN. But on the other hand, they do not intend to deduct it from what they owe the railroads, but to pay the railroads the full amount they owe them, and continue the indebtedness from the railroads to them.

Mr. MEYER. With a view to liquidation in the market.

Senator PITTMAN. I do not care what the view is.

Senator KELLOGG. Well, that is not proposed in this bill.

Senator PITTMAN. No; but that is the proposition.

Senator KELLOGG. That was settled in the railroad bill.

Senator PITTMAN. But the result of the transaction, in my mind, still constitutes a loan in the sum of \$500,000,000 to the railroads, if there is no process by which they reduce their indebtedness. I can not see how it would result in anything else.

Mr. MEYER. Congress gave the director general, in the transportation act, authority to take obligations of railroads in settlement of their account on additions and betterments. This bill provides no new authority in that respect.

Senator PITTMAN. That is all regular. I am not questioning the authority. That is all regular. But the fact remains that if the Government pays the full amount of its indebtedness to the railroads, and does not get anything in the nature of cash from the railroads to it, that whatever that amount is is a loan.

Mr. MEYER. That is not a new situation. That was always contemplated. As I pointed out yesterday, the original War Finance Corporation act, in section 9, gave authority to the corporation to finance additions and betterments for the roads. That has been contemplated practically from the beginning of Government control.

Senator PITTMAN. Yes; I am not discussing what was contemplated, but I am discussing the fact that if the Government owes the railroads \$800,000,000, as an illustration, and the railroads owe the Government \$500,000,000, I do not care on what account, and the Government pays the full \$800,000,000, then the difference is a loan by the Government to the railroads.

Mr. MEYER. Yes; but it is not a new situation.

Senator PITTMAN. I am not talking about whether it is a new situation or not. I am simply taking the construction of your language to Senator Pomerene, which did not appeal to my mind.

Senator KELLOGG. I did not understand him so. He said this bill did not create a new loan. He was not discussing whether that was a loan under the original bill or not.

Senator PITTMAN. Well, I really am not interested in whether this bill does it or whether another bill does it. The situation is that the Government is continuing a loan of \$500,000,000 to the railroads, and at the same time paying the full amount that it owes to the railroads.

Senator TOWNSEND (presiding). I think that is clear now, and Mr. Meyer will answer that. You understand Senator Pittman's question?

Mr. MEYER. It is a statement; not a question, Senator. I think there is no exception to be taken.

Senator PITTMAN. No; my mind is clear on it.

Mr. MEYER. Yes; I do not think there is any difference of opinion and I did not intend to say anything that would lead to a contrary inference.

Senator PITTMAN. It did in my mind.

Mr. MEYER. I beg your pardon; I did not understand the point. As a matter of fact, from a practical point of view, our ability to assist once in marketing these securities would enable the Government and the railroads to settle all of their accounts of all kinds and character more promptly, in my opinion. This refers especially to the giving of authority to the Director General to sell not only the securities taken in settlement of additions and betterments but also those taken in connection with some old loans. It think that the Government should be put in possession of power to liquidate any railroad investment it has, at cost, at the earliest possible opportunity, and this act is drawn with that end in view.

Senator TOWNSEND (presiding). Senator La Follette, have you any questions to ask?

Senator LA FOLLETTE. You spoke of the War Finance Corporation under section 9 financing the railroads to a certain extent. To what extent did they make loans to the railroads? And to what roads? State that, with the amounts, if you are able to do so.

Mr. MEYER. I will be very glad to furnish a statement giving that information. I think you were here when I made my statement yesterday.

Senator LA FOLLETTE. I was here during all of your statement yesterday.

Mr. MEYER. The total amount of advances to railroads, most of which were actually made between the end of December and the end of July, 1919, were \$39,000,000.

To the Ann Arbor Railroad, the War Finance Corporation advanced \$150,000, of which \$100,000 has been repaid.

Senator LA FOLLETTE. \$50,000 of that is outstanding?

Mr. MEYER. Yes, sir; \$50,000 of that is outstanding.

Senator LA FOLLETTE. What security did you have for that loan?

Mr. MEYER. Well, that loan was secured by short-term notes secured in turn by Ann Arbor Railway Co. improvement and extension mortgage 30-year 5 per cent bonds, due on May 1, 1941.

Senator LA FOLLETTE. What was the value of those bonds at that time in the market?

Mr. MEYER. The bonds themselves?

Senator LA FOLLETTE. Yes, sir.

Mr. MEYER. I can not say that I remember offhand, but the bonds were a note issue of which we took a part; the balance, or some part of the note issue, was sold in the market at slightly under par. We had the face value plus a margin of 25 per cent, or perhaps a little more.

Senator LA FOLLETTE. You still have those bonds, have you?

Mr. MEYER. \$50,000. \$100,000 has been repaid.

Senator LA FOLLETTE. And you have \$50,000. Can you state what they are worth now?

Mr. MEYER. Well, I do not think there is an active market for those securities.

Senator LA FOLLETTE. Well, are they quoted at all?

Mr. MEYER. I think not. It is a small issue.

Senator LA FOLLETTE. Now, just go on through that list, if you please.

Mr. MEYER. Baltimore & Ohio Railroad Co., \$7,450,000.

Senator LA FOLLETTE. What was taken as security for that loan?

Mr. MEYER. We made three loans to the Baltimore & Ohio Railroad. In the one case, No. 1, we had Reading Co. first preferred stock, Reading Co. second preferred stock, and Reading Co. common stock. Of course, those had well-established market values. We had the amount of the advance plus 25 per cent margin or a little more.

Senator LA FOLLETTE. Yes.

Mr. MEYER. In Loan No. 2 to the Baltimore & Ohio Railroad, which was—

Senator POMERENE. May I interrupt there just to make this matter clear?

Senator LA FOLLETTE. Yes.

Senator POMERENE. The three loans together amounted to the \$7,000,000 plus; is that it?

Mr. MEYER. Yes; \$7,450,000. All those loans have been repaid.

Senator LA FOLLETTE. I suppose you have full and clear statements before you there on all of these transactions?

Mr. MEYER. Yes, sir.

Senator LA FOLLETTE. And does the statement which you have before you show just how much has been paid in on each one of these loans?

Mr. MEYER. Yes, Senator.

Senator LA FOLLETTE. Well, then, without taking the time to go through it in detail, if you will just make it a part of the record here, I will be obliged to you.

Mr. MEYER. I shall be very glad to do that, Senator.

Senator POMERENE. That means as to all of these loans?

Mr. MEYER. Yes.

Senator LA FOLLETTE. Yes, sir.

Mr. MEYER. Out of a total of \$204,794,520 advanced, \$160,561,310 has been repaid, leaving outstanding \$44,233,210. We receive repayments from time to time.

Senator LA FOLLETTE. Yes. As indicating the character of the transactions which the War Finance Corporation has conducted and approved, will you state how much in money has been loaned to various enterprises by the War Finance Corporation and how much of it is past due and outstanding and unpaid?

Mr. MEYER. I will be prepared to submit that for the record.

Senator LA FOLLETTE. Yes; I wish you would do so.

Mr. MEYER. I do not think I have all of it in detail here, Senator.

(The statements to be furnished by Mr. Meyer are here printed in full, as follows:)

AUGUST 12, 1921.

Hon. EUGENE MEYER, JR.,

Managing Director, War Finance Corporation, Washington, D. C.

DEAR SIR: I acknowledge receipt of your letter of this date in which you quote a request of Senator La Follette during the hearing on August 10 before the Senate Committee on Interstate Commerce, for information as to the amount advanced by the War Finance Corporation to various enterprises, and the amount of such advances as is past due and unpaid.

In compliance with your request that I furnish you with this information, you are advised that under its war-time powers and under the export provisions of the act, as set forth in section 21 thereof, the total advances made by the War Finance Corporation are \$359,657,049.58. Of this amount the sum of \$17,098,077.76 is past due and unpaid as of this date, of which amount \$292,624.89 represents cattle loans which, while technically past due, the board has agreed to carry over until fall.

Respectfully yours,

R. R. BURKLIN, *Treasurer.*

HISTORY OF ADVANCES FROM WAR FINANCE CORPORATION TO RAILROADS UNDER FEDERAL CONTROL.

AUGUST 3, 1921.

When the railroads of the United States were taken over by the Federal Government, a revolving fund of \$500,000,000 was created, to be used by the Railroad Administration in making up such deficits in the rental or standard return that could not be covered by earnings of operation, and for the further purpose of financing additions and betterments in cases where this could not be done by the corporate organizations of the roads through the usual channels. Increases in cost of labor and supplies, and the large amount of betterment work undertaken to put the railroads in shape to carry

on in a most expeditious manner the heavy traffic resulting from the movement of troops and war materials, had by the end of 1918 entrenched upon the earnings and liquid assets of the railroads to such an extent that the revolving fund was nearly exhausted.

On September 6, 1918, the directors set forth by resolution that it would be their policy, if called upon, to make advances to railroads in the possession and control of the President, upon recommendation of the United States Railroad Administration, in accordance with the terms of the War Finance Corporation act. On December 12, Mr. McAdoo brought the railroad situation to the attention of the board and requested that the corporation consider the question of making loans to railroads. The matter was referred to Mr. Meyer, Mr. McLean, and Mr. Franklin for conferences with representatives of the Railroad Administration.

On December 17, 1918, with Mr. Glass at presiding chairman, the following was adopted:

"Resolved, That the War Finance Corporation inform the Director General of Railroads that it is ready to make advances up to \$100,000,000 to railroads on their direct application, these applications to be considered in the order in which they are made, each on its own merit."

Acting in accordance with the above resolution, the War Finance Corporation advanced during the year ending November 30, 1919, to railroads for the purpose of repaying amounts due to the Railroad Administration, for additions and betterments, and for assistance in meeting maturities \$89,699,690 on secured notes of the borrowing companies.

The assistance given to railroads in this manner is to be measured not alone by the sume actually advanced. The credit of the borrowing companies was materially improved by the acceptances of their obligations as security for advances from the War Finance Corporation, and large amounts were accordingly obtained through banking channels or from the general public. In some cases the War Finance Corporation entered into commitments to accept, within agreed limits, certain proportions of note issues providing the balance were placed elsewhere.

A list of roads placing note issues through the direct cooperation of the War Finance Corporation is given below.

Name of road.	Amount of issue.	Amount taken by War Finance Corporation.	Amount placed elsewhere.
Baltimore & Ohio.....	\$14,750,000	.....	\$14,750,000
Hocking Valley.....	7,500,000	\$300,000	7,200,000
Erie.....	15,000,000	13,029,000	1,971,000
Baltimore & Ohio.....	5,000,000	2,000,000	3,000,000
Ann Arbor.....	750,000	194,800	555,200
Total.....	43,000,000	15,523,800	27,476,200

NOTE.—In the case of the Hocking Valley advance mentioned above, the corporation advanced to the Chesapeake & Ohio \$300,000 to be advanced by it to the Hocking Valley in connection with the maturity of \$5,000,000. This maturity and other requirements were later cared for by a note issue of \$7,500,000 out of the proceeds of which the Chesapeake & Ohio was repaid and in turn repaid the corporation's advance. In connection with the Erie, the corporation took \$13,029,000 in notes against which it advanced \$12,768,420; \$276,000 of the notes were later sold and \$270,480 of the advance repaid. In connection with the Ann Arbor the corporation advanced \$150,000 on a demand note, taking as security \$194,800 of the company's two-year notes.

A list of the loans extended to railroads formerly under Federal control is as follows:

LOANS EXTENDED TO RAILROADS FORMERLY UNDER FEDERAL CONTROL.

ANN ARBOR RAILROAD CO.

Amount, \$150,000; date made, July 25, 1919; rate, 6 per cent; maturity, demand; date paid, February 26, 1920, \$100,000.

Security: Two-year collateral notes of Ann Arbor Railroad Co. dated May 1, 1919..... \$194,800.

NOTE.—These are part of a total authorized issue of \$750,000 secured by \$2,000,000 Ann Arbor Railway Co. improvement and extension mortgage 30-year 5 per cent bonds due May 1, 1941.

Purpose: To assist company in meeting maturity of \$750,000. Notes due May 1, 1919.

REFUNDING OF RAILROAD DEBT.

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BALTIMORE & OHIO RAILROAD CO.

Loan No. 1, \$4,450,000; date made, December 31, 1918. No. 2, \$1,000,000; date made, December 31, 1918. No. 3, \$2,000,000; date made, March 31, 1919. Total, \$7,450,000. Rate, 6 per cent; maturity, demand; date paid, July 15, 1919.

Security:

(A) Under loan No. 1—	
Reading Co. first preferred stock, par value.....	\$912,300
Reading Co. second preferred stock, par value.....	2,094,100
Reading Co. common, par value.....	2,158,700
(B) Under loan No. 2—Baltimore & Ohio 5 per cent refunding and general mortgage gold bonds; series A, due December 1, 1995.....	1,500,000
(C) Under loan No. 3—Refunding and general mortgage 6 per cent gold bonds, series B, due December 1, 1995.....	2,700,000

Purpose:

To repay Director General of Railroads.....	5,450,00
To meet maturity of Coal & Coke Ry. bonds.....	2,000,00

BUFFALO, ROCHESTER & PITTSBURGH RAILWAY CO.

Amount, \$1,000,000; date made, February 8, 1919; rate, 6 per cent; maturity, demand; date paid, December 1, 1920.

Security: Buffalo, Rochester & Pittsburgh Ry. Co. 4½ per cent consolidated gold bonds, due May 1, 1957, par value.....	\$1,603,000
Purpose: To repay Director General of Railroads.....	1,000,000

CENTRAL OF GEORGIA.

Loan No. 1, \$900,000; date made, December 30, 1918. No. 2, \$1,121,000; date made, March 20, 1919. Total, \$2,021,000. Rate, 6 per cent; maturity, demand; date paid, June 11, 1919.

Security:

(A) Under loan No. 1—Central of Georgia 5 per cent general and refunding mortgage gold bonds, due Oct. 1, 1962, par value.....	\$1,372,000
(B) Under loan No. 2—General and refunding 5 per cent mortgage gold bonds, due Oct. 1, 1962, par value.....	1,709,000

Purpose:

For interest and other corporate requirements.....	900,000
To pay for locomotives ordered by company in December, 1917.....	1,121,000

CHESAPEAKE & OHIO RAILWAY CO.

Loan No. 1: \$2,070,000; date made, January 15, 1919; \$250,000; date made, March 13, 1919.

Loan No. 2: \$25,000; date made, January 31, 1919; \$275,000; date made, February 6, 1919; rate, 6 per cent; maturity, demand; date paid, March 1, 1919, \$300,000; February 14, 1921, \$2,320,000.

Security:

A. Under loan No. 1—	
Chesapeake & Ohio Ry. Co. first lien and improvement mortgage 5 per cent bonds, due Dec. 1, 1930, par value.....	\$3,626,000
B. Under loan No. 2—	
Chesapeake & Ohio Ry. Co. first lien and improvement 20-year mortgage bonds, series A, due Dec. 1, 1930, par value.....	222,000
Hocking Valley Ry. Co. 6 per cent gold notes, due Nov. 1, 1918, extended to Feb. 1, 1919, par value.....	275,000

Purpose:

To repay Director General of Railroads.....	2,070,000
For current corporate requirements.....	250,000
To advance Hocking Valley Ry. Co. to assist in meeting latter's note maturity.....	300,000

CHICAGO, INDIANAPOLIS & LOUISVILLE.

Amount, \$1,400,000; date made, March 13, 1919; rate, 6 per cent; maturity, demand.

Security, Chicago, Indianapolis & Louisville Ry. Co. first and general mortgage 5 per cent bonds, series A, due May 1, 1966, par value..... \$2,100,000

Purpose, to repay Director General of Railroads..... 1,400,000

REFUNDING OF RAILROAD DEBT.

CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.

Amount, \$11,500,000; date made, December 31, 1918; rate, 6 per cent; maturity, demand; date paid, October 9, 1920.	
Security, Chicago, Milwaukee & St. Paul Ry. Co. general and refunding mortgage 6 per cent bonds, series Z, due Jan. 1, 2014, par value.....	\$17,458,000
Purpose:	
To repay Director General of Railroads.....	8,000,000
For meeting maturing trust certificates.....	3,000,000
Other corporate requirements.....	500,000

CHICAGO, ROCK ISLAND & PACIFIC RAILWAY CO.

Amounts, \$9,700,000; date made, December 31, 1918; \$730,000; date made, January 31, 1919; rate 6 per cent; maturity, demand.	
Security, Chicago, Rock Island & Pacific Ry. Co. first and refunding mortgage 4 per cent bonds, due Apr. 1, 1934, par value.....	\$19,223,000
Purpose:	
To repay Director General of Railroads.....	6,000,000

Maturities and current corporate requirements..... 4,430,000

ERIE RAILROAD CO.

Amount, \$12,768,420; date made, Apr. 1, 1919; rate, 6 per cent; maturity, Apr. 1, 1922; date paid, April, 1919, \$270,480.	
Security, \$12,753,000 3-year 6 per cent notes, part of an issue of \$15,000,000 secured as a whole by—	
Erie R. R. first consolidated mortgage general lien 4 per cent gold bonds.....	\$18,217,000
Erie general mortgage 4 per cent converted 50-year gold bonds, series D.....	8,372,000
Erie refunding and improvement mortgage 20-year 6 per cent gold bonds, series B.....	5,400,000
Columbus & Erie first mortgage 50-year 5 per cent gold bonds.....	600,000

Purpose, note issue maturing April 1, 1919, War Finance Corporation taking such part of new issue as bankers could not place, and \$5,000,000 which the Railroad Administration informally had agreed to take.

GULF, MOBILE & NORTHERN.

Amount, \$330,000; date made, July 1, 1919; rate, 6 per cent; maturity, demand; date paid, November 13, 1920.	
Security:	
Meridian & Memphis Ry. Co. first mortgage 5 per cent bonds, due Jan. 1, 1943, par value.....	\$675,000
All outstanding stock of Meridian & Memphis Ry.....	15,000
Also agreement not to place any mortgage on property of Gulf, Mobile & Northern without making provision for repayment of above advance.	
Purpose:	
To meet maturities of Meridian & Memphis Ry. Co.....	260,000
To pay off floating debt incurred on account of Meridian & Memphis Ry.	70,000

ILLINOIS CENTRAL RAILROAD CO.

Amount, \$1,500,000; date made, December 31, 1918; \$10,500,000; date made, January 27, 1919; rate, 6 per cent; maturity, demand; date paid, February 25, 1919, \$6,300,000; April 3, 1920, \$5,700,000.	
Security:	
Illinois Central R. R. 5 per cent first refunding mortgage bonds, due Dec. 1, 1963, par value.....	\$8,268,000
Illinois Central R. R. 4 per cent refunding mortgage bonds, due Nov. 1, 1955—	
Originally deposited, par value.....	8,647,000
Deposited later as additional security and in substitution, par value.....	1,048,000

¹ Shares.

² \$10,500,000 of this advance carried a rate of 6 $\frac{1}{2}$ per cent for the first 30 days and 6 per cent thereafter.

Purpose:

To repay advances of \$10,000,000 from Director General of Railroads and interest on same.....	\$10,500,000
For interest and other corporate requirements.....	1,500,000

NEW YORK CENTRAL RAILROAD CO.

Loan No. 1, \$13,500,000; date made, January 23, 1919. No. 2, \$4,000,000; date made, January 23, 1919. No. 3, \$3,000,000; date made, January 23, 1919. Total, \$20,500,000. Maturity, 90 days after demand on or subsequent to one year from the dates of said notes. Date paid, July 24, 1919, \$3,000,000.

Security:

(A) Under loan No. 1—	
Reading Co., common.....	shares.. 122,050
Reading Co., first preferred.....	do.. 46,200
Reading Co., second preferred.....	do.. 2,500
Wells Fargo Express.....	do.. 7,500
Mohawk Valley, common.....	do.. 26,143
New York State Railways, common.....	do.. 136,043
New York, New Haven & Hartford, common.....	do.. 15,456
New York, New Haven & Hartford, consolidated 3½ per cent debentures.....	\$206,300
New York, New Haven & Hartford, consolidated 6 per cent debentures.....	\$421,000
American Railway Express.....	shares.. 23,000
(B) Under loan No. 2—	
Note of Michigan Central Railroad Co. for \$5,000,000 secured by—	
Canada Southern.....	shares.. 75,000
Toronto, Hamilton & Buffalo Railway.....	do.. 6,694
Michigan Central, refunding and improvement 4½ per cent bonds, series A, due 1947, par value.....	\$2,171,000
(C) Under loan No. 3—	
Note of Cleveland, Cincinnati, Chicago & St. Louis, \$3,750,000, secured by—	
Cleveland, Cincinnati, Chicago & St. Louis, general mortgage 5 per cent bonds, series B, due June 1, 1993, par value.....	313,000
Cleveland, Cincinnati, Chicago & St. Louis, 4½ per cent debentures, due Jan. 1, 1931, par value.....	4,500,000

Purpose:

To repay Director General of Railroads.....	13,500,000
To advance to Michigan Central to enable it to repay Director General of Railroads.....	4,000,000
To advance to Cleveland, Cincinnati, Chicago & St. Louis to enable it to repay Director General of Railroads.....	3,000,000

SOUTHERN RAILWAY CO.

Amount: \$5,264,480, date made, December 30, 1918; \$735,520, date made, January 6, 1919; \$792,770, date made, February 24, 1919; \$562,500, date made March 1, 1919; total, \$7,355,270. Maturity, demand; date paid, June 22, 1921, \$4,971,425.87; July 1, 1921, \$28,574.13.

Security: Southern Ry. Co. development and general mortgage 4 per cent bonds, series A, due Jan. 1, 1956, par value..... \$14,145,000

Purpose:

To repay Director General of Railroads.....	3,670,000
Maturing equipment obligations.....	412,000
Interest and rentals.....	4,210,770
Balance due on note issue maturing Mar. 2, 1919.....	562,500

Of the above advances the following amounts remain unpaid as of August 1, 1921:

Ann Arbor Railroad Co.....	\$50,000
Chicago, Indiana & Louisville.....	1,400,000
Chicago, Rock Island & Pacific.....	10,430,000
Erie Railroad Co.....	12,497,940
New York Central Railroad.....	17,500,000
Southern Railway Co.....	2,355,270

Early in the spring of 1919 it became apparent that the decreased volume of traffic, increased costs of operation, and the necessity of financing large items of additions and betterments and equipment for the railroads would require further appropriations from Congress. For this purpose \$750,000,000 was asked by the Railroad Administration, but the measure failed of passage in the closing days of the Sixty-fifth Congress. The financial condition of the Railroad Administration was such that the assistance of the War Finance Corporation was required to prevent a disastrous financial collapse and to insure the uninterrupted operation of the railroads during the period of demobilization. We therefore advanced immediately to the Director General of Railroads \$50,000,000, taking as collateral certain obligations of various railroads pledged as security for advances from the administration.

During the spring months revenues from railroad operation are always materially below the average for the fiscal year, for reasons readily understandable. During the spring of 1919 revenues were particularly unfavorable because of conditions then prevailing. The director general was therefore faced with the problem of obtaining sufficient funds for the payments due monthly in the way of rentals, which payments the roads in turn required to meet interest and other accruing charges. Through the cooperation of the War Finance Corporation there was developed the plan of paying, in lieu of cash, certificates of indebtedness, as evidence of indebtedness and bearing interest. These certificates were then pledged by the railroads, either with banks or the War Finance Corporation, and cash for interest and other requirements thus obtained.

To cover the requirements of April, May, and June, certificates to the amount of approximately \$292,000,000 were issued to railroads and to railway equipment companies—\$193,272,975 of this to railroads. The War Finance Corporation loaned \$65,094,830 to railroad companies, taking such certificates as collateral, and \$1,000,000 miscellaneous advances, also on certificates, to railway equipment companies.

It is probable that without our participation the method of borrowing on certificates could not have been used. Through the element of confidence injected into the situation by our participation, three times as much money as we advanced was provided through other channels.

In June Congress appropriated \$750,000,000 as an additional revolving fund for the Railroad Administration, and the certificates of indebtedness have been paid off and our loans on such certificates repaid. The Railroad Administration has also repaid the \$50,000,000 advanced for its temporary needs.

A list of advances made by the War Finance Corporation on certificates of indebtedness of the Director General is as follows: All of these advances were made on notes payable on demand and secured by the deposit of certificates of indebtedness in face amount equal to 125 per cent of the amount of the advance. All of these loans were paid July 15, 1919,

Name.	Date.	Amount.	Name.	Date.	Amount.
	1919.				
Alabama Great Southern	June 17	\$392,000	Cleveland, Chicago, Cincinnati & St. Louis	Mar. 29	\$340,000
Baltimore & Ohio R. R.	Mar. 31	4,600,000	Delaware & Hudson	Apr. 29	753,000
Do	Apr. 29	1,700,000	Do	June 21	1,000,000
Boston & Maine R. R.	Mar. 29	728,000	Erie R. R.	Mar. 31	2,500,000
Do	Apr. 29	216,000	Do	May 26	800,000
Buffalo, Rochester & Pitts- burgh	Mar. 28	208,800	Hocking Valley	Apr. 29	100,000
Do	Apr. 23	449,600	Illinois Central	do . . .	1,700,000
Central R. R. of New Jersey	Apr. 29	775,200	Do	May 26	1,500,000
Do	May 14	693,600	International & Great North- ern	Apr. 30	387,200
Do	June 23	130,400	Lake Erie & Western	Mar. 29	62,400
Do	do	638,400	Lehigh Valley	Mar. 28	2,400,000
Central Vermont Ry. Co.	Apr. 29	128,800	Do	May 13	240,000
Chesapeake & Ohio Ry. Co.	Mar. 28	800,000	Michigan Central	May 26	800,000
Do	Apr. 29	400,000	Missouri, Kansas & Texas	Mar. 29	992,000
Do	May 26	347,000	Do	Apr. 29	342,000
Chicago & Alton R. R.	Apr. 29	100,000	Do	May 26	976,000
Do	June 2	80,000	Missouri Pacific	Mar. 31	1,120,000
Chicago, Burlington & Quincy	Mar. 26	3,977,600	New York Central	Mar. 29	2,000,000
Do	Apr. 23	1,520,000	New York, New Haven & Hartford	Apr. 29	1,312,000
Do	June 23	2,216,000	New York, Susquehanna & Western	do	100,000
Chicago, Milwaukee & St. Paul	Mar. 29	1,800,000	Northern Pacific	Apr. 23	2,500,000
Chicago, Rock Island & Pacific	do	2,800,000	Northwestern Pacific	June 23	540,000
Do	Apr. 29	436,800	Pennsylvania R. R.	May 26	12,200,000
Cincinnati, New Orleans & Texas Pacific	June 18	194,350	Pere Marquette	Apr. 29	140,000
			Philadelphia & Reading	May 6	1,000,000
			San Antonio & Aransas Pass	Apr. 16	53,000

REFUNDING OF RAILROAD DEBT.

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Name.	Date.	Amount.	Name.	Date.	Amount.
Seaboard Air Line Ry.....	June 2	\$135,000	Do.....	June 14	\$68,000
Do.....	June 14	110,000	Western Maryland Ry.....	Mar. 26	931,000
Spokane, Portland & Seattle	Apr. 24	100,000	Do.....	Mar. 29	213,600
Virginia Ry.....	Apr. 28	775,000	Wheeling & Lake Erie.....	Mar. 27	618,000
Wabash Ry.....	Apr. 29	976,000	Do.....	June 24	24,480
Do.....	May 26	92,900			

ADVANCE TO CUMBERLAND & MANCHESTER RAILROAD CO.

(This advance, totaling \$175,000, was paid June 30, 1921.)

The Cumberland & Manchester Railroad Co. was not at any time under Federal control, though it has accepted the provisions of the transportation act with respect to guaranteed returns during six months following the end of Federal control.

The advance to the Cumberland & Manchester Railroad Co. was made partly as a transportation matter, at the request of the United States Railroad Administration and partly because of its bearing on the coal situation, at the request of the United States Fuel Administration.

Summary of advances from War Finance Corporation to railroads.

Name of road.	Amount.	Date paid.
A. Advances to railroads under Federal control on securities other than certificates of indebtedness of the Director General of Railroads:		
Ann Arbor R. R. Co.....	\$150,000.00	Feb. 26, 1921
Baltimore & Ohio R. R.....	7,450,000.00	July 15, 1919
Buffalo, Rochester & Pittsburgh.....	1,000,000.00	Dec. 1, 1920
Central of Georgia.....	2,021,000.00	June 11, 1919
Chesapeake & Ohio Ry.....	2,620,000.00	Mar. 1, 1919 (Feb. 14, 1921)
Chicago, Indianapolis & Louisville.....	1,100,000.00	
Chicago, Milwaukee & St. Paul.....	11,500,000.00	Oct. 9, 1920
Chicago, Rock Island & Pacific.....	10,430,000.00	
Erie Railroad Co.....	12,768,420.00	Apr. 1, 1919
Gulf, Mobile & Northern.....	330,000.00	Nov. 13, 1920
Illinois Central Railroad Co.....	12,000,000.00	Feb. 25, 1919
New York Central Railroad.....	20,500,000.00	Apr. 3, 1920
Southern Railway Co.....	7,355,270.00	July 24, 1919 (June 22, 1921)
Total.....	89,524,690.00	45,291,480.00
B. Advance to Cumberland & Manchester	175,000.00	June 30, 1921
C. Advance to Director General railroads.	50,000,000.00	July 15, 1919
D. Advances to railroads on certificates of indebtedness issued Director General.....	65,094,830.00	do.....
Total railroad advances.....	204,704,520.00	45,291,480.00
Total repaid to Aug. 1, 1921.....	160,561,310.00	175,000.00
Remaining unpaid Aug. 1, 1921.....	44,233,210.00	50,000,000.00

Summary of certificate issues by Director General.

Certificates of indebtedness issued by Director General:

Carriers.....	\$193,272,975.00
Barge lines, etc.....	389,921.58
Railroad equipment builders.....	98,284,741.59
Total.....	291,947,638.17

Advances by War Finance Corporation with certificates of indebtedness as collateral: Amount advanced railroads, \$65,094,830; equipment, \$1,000,000; par value certificates deposited as collateral thereunder, railroads, \$81,373,600; equipment, \$1,250,142.51. Dated August 3, 1921.

Senator LA FOLLETTE. I happened to notice one transaction, and I regard it only as incidental to the method of conducting business. You made a loan about July 1, 1918, as I remember, of about sixteen or seventeen million dollars, to the Rapid Transit Co. of New York.

Mr. MEYER. The Brooklyn Rapid Transit Co. of New York; yes.

Senator LA FOLLETTE. Has that loan been paid?

Mr. MEYER. No; the company is in the hands of the receiver at the present time.

Senator LA FOLLETTE. How soon after the loan was made did the company go into the hands of the receiver?

Mr. MEYER. About six months. I think.

Senator LA FOLLETTE. Were proceedings pending to put it into the hands of the receiver at the time the loan was made?

Mr. MEYER. I do not think they were. I was not at that time managing director of the corporation. I was just one of the directors; it was stated that there was a note issue of about \$60,000,000 falling due at that time, and the company applied for all the money to meet the maturity. I think the directors agreed to advance 30 per cent of the face value of the notes if the holders of the notes would extend the balance, and that plan was carried out. The principal consideration for making the loan at the time—if you will remember the period, it was about the middle of June, 1918, that this matter was before the board—

Senator LA FOLLETTE. Yes; October.

Mr. MEYER (continuing). That date happened to coincide with perhaps the very worst time in the military position of the United States and of the countries associated with us in the war; and, of course, also with a time of the greatest financial strain. We were spending then perhaps \$70,000,000 a day for military purposes. The directors hesitated great deal about the loan, and the decision was really made on the recommendation of the Secretary of the Treasury, and I think of the Federal Reserve Board, on the ground that the receivership of the Brooklyn Rapid Transit at that time would constitute a very detrimental factor in the general financial strength of this country and perhaps affect the whole military situation in so far as finance had anything to do with military affairs. So that was really the deciding factor at the time.

Six months later the Brooklyn Rapid Transit Co. appeared before the directors for a loan of \$20,000,000, if I am not mistaken. The war was over then, and of course the financial strength of America had ceased to be a factor from a military point of view. The board refused to make a loan on the ground that it had nothing to do with the war, and that our powers were connected only with war activities and had expired in so far as such advances were concerned. The company went into the hands of a receiver soon afterwards. It was stated that it might have to go into the hands of a receiver if no way was found to finance the maturity of \$60,000,000 falling due in June, 1918, and it was with a view to avert that, I assume, that the Secretary of the Treasury and the Federal Reserve Board, or the Federal reserve banks, advised that the advance be made. The security was considered good at the time. Many people consider it good now. The road's earnings are improving.

The advance is secured by bonds representing a cash investment under the supervision of the Public Service Commission of the State of New York, and the city of New York has an investment of perhaps \$140,000,000, in addition, in the lines operated by the Brooklyn Rapid Transit Co. The condition then existing, which was one of increasing expenses and stationary revenues—which, of course, was nothing exceptional in that company; it was true of all of the public utilities—interfered with the earning capacity of the company. I think its earning capacity is coming back, now that the expense of operating is being reduced. My opinion is that the War Finance Corporation will not lose any money on that loan ultimately. That is a matter of judgment.

Senator LA FOLLETTE. How long, in your opinion, will it have to be carried to pull it out of the hole?

Mr. MEYER. I could not say. I would not have an opinion as to that. But I would consider that the investment is likely to be ultimately recovered. The question of time, of course, is a little difficult to judge. It is a matter of personal opinion.

Senator LA FOLLETTE. Were loans made to other failing institutions?

Mr. MEYER. That was not a failing institution at the time, as we regarded it. I do not know of any such loans, Senator, offhand. Of course, the whole authority of the War Finance Corporation was to save institutions that might have been in danger without some assistance. That is what it was created for.

Senator LA FOLLETTE. Well, that is a conclusion on which there might be some difference of opinion when it is applied in particular cases. Was there a loan of about a million dollars made to a New Orleans corporation?

Mr. MEYER. There was a loan made at that time to a New Orleans street railway. I think that has all been paid off. Yes, it has all been paid off.

Senator LA FOLLETTE. Did it afterwards go into the hands of the receiver?

Mr. MEYER. It afterwards went into the hands of the receiver, but this loan was sufficiently well secured and it was paid off.

Senator LA FOLLETTE. When was that paid off? Do you happen to remember when it was paid?

Mr. MEYER. It was paid off in installments, but all of it was finally paid off—I think at the end of last year.

Senator LA FOLLETTE. Well, just note, if you please, when you come to make out the list of your loans and the results of those loans, the particular date of the payment of that amount.

Mr. MEYER. I am quite sure that the final installment was paid at the end of 1920.

NOTE.—The last installment was paid January 5, 1921.

Senator LA FOLLETTE. Mr. Meyer, when was your attention first directed to this plan of financing the railroads?

Mr. MEYER. Nobody directed my attention to it.

Senator LA FOLLETTE. When did you first conceive the idea, if it originated with you?

Mr. MEYER. Of course, the discussion about the railroad situation has been general.

Senator LA FOLLETTE. Oh, I understand that. I am not talking about that.

Mr. MEYER. It occurred to me that the War Finance Corporation might perhaps be helpful in this situation and that our war powers might be revived if Congress wanted to do it. I made the suggestion, and it seemed to me that pretty near—

Senator LA FOLLETTE (interposing). When did you first make it?

Mr. MEYER. I can not give you the date, Senator.

Senator LA FOLLETTE. To whom did you make it?

Mr. MEYER. I made the suggestion to the Secretary of the Treasury, the Secretary of Commerce, and the President.

Senator LA FOLLETTE. It had not been discussed with you by anybody up to that time?

Mr. MEYER. This plan?

Senator LA FOLLETTE. Anything akin to this plan?

Mr. MEYER. No; it had not been discussed by me with anybody.

Senator LA FOLLETTE. Were you present at a conference of bankers with the President, at which such a plan was discussed?

Mr. MEYER. No; I have never been present at any conference of bankers with the President, and I do not know that it has ever been discussed by bankers with the President.

Senator LA FOLLETTE. When did you first have a conference with Mr. Hoover about it?

Mr. MEYER. I can not tell you the date.

Senator LA FOLLETTE. About when? How long ago?

Mr. MEYER. Oh, it might have been three or four weeks ago, perhaps.

Senator LA FOLLETTE. Did you know of Mr. Hoover's going to New York to confer with the railway executives about it?

Mr. MEYER. I did not know that he ever conferred with the railway executives about it.

Senator LA FOLLETTE. Did you not hear anything about it?

Mr. MEYER. No.

Senator LA FOLLETTE. Who drafted Senate bill 2337?

Senator TOWNSEND (presiding). That is the last bill.

Senator LA FOLLETTE. That is the bill that is before the committee.

Mr. MEYER. This Senate bill is a revision of a bill that was drafted by the War Finance Corporation. I think the counsel of the War Finance Corporation and the drafting advisers of the House of Representatives finally determined the exact form.

Senator LA FOLLETTE. Did the War Finance Corporation prepare the first rough draft of the first bill?

Mr. MEYER. I beg your pardon, Senator?

Senator LA FOLLETTE. I say, did the War Finance Corporation prepare the first draft?

Mr. MEYER. Our counsel did.

Senator LA FOLLETTE. Your counsel did?

Mr. MEYER. Yes.

Senator LA FOLLETTE. Was anyone else present at any time while the subject was being discussed?

Mr. MEYER. I should say not. I think the bill was drawn entirely by the counsel of the War Finance Corporation.

Senator LA FOLLETTE. Who is he?

Mr. MEYER. Mr. Henderson. Mr. Henderson is here.

Senator POMERENE. Give his full name.

Mr. MEYER. G. C. Henderson.

Senator LA FOLLETTE. Why were two bills introduced, do you know? Why were two bills prepared?

Mr. MEYER. Why were two bill prepared?

Senator LA FOLLETTE. Yes. There is one Senate bill 2335.

Mr. MEYER. That resulted from the suggestion, I think, of the Bill Drafting Division of the House of Representatives.

Senator LA FOLLETTE. Of the House of Representatives?

Mr. MEYER. Yes. The first, 2335, I think, was our first draft, and this, 2337, was the final bill.

Senator LA FOLLETTE. No. 2335 was your first draft, and this other, 2337, was the final draft; is that right?

Mr. MEYER. Yes.

Senator LA FOLLETTE. Why was the first bill abandoned for this draft, if you know?

Mr. MEYER. I am not very well versed on technical matters. It was just a question of form. I was not present at the time, except for a moment, and I am not familiar with the details of the changes in form.

Senator LA FOLLETTE. Do you think they mean substantially the same thing?

Mr. MEYER. They appear to be substantially the same thing. I suppose the object was to have a uniform bill in both Houses.

Senator TOWNSEND (presiding). I could answer that if you want to know how that happened to come in there. I can state why I introduced two bills. In the first place, the bill was presented to me by the President.

Senator LA FOLLETTE. Which one?

Senator TOWNSEND (presiding). The first bill. I assumed, and I think he did, that it was the same bill that had been introduced in the House. After it had been introduced by me I learned from the chairman of the House committee, Mr. Winslow, that the bills were different. I then got a copy of the House bill and saw that it was a different bill from the one that I had introduced. After talking with Mr. Winslow and being satisfied that they practically had the same object in view, I concluded, at nobody's request, to introduce the House bill, so I introduced that several days afterwards in order that the same matter, in exactly the same language, might be brought before the two houses.

Senator LA FOLLETTE. Exactly.

Mr. MEYER. Section 2, paragraph (a), on page 2 of this bill, empowers the War Finance Corporation to buy from the President—and that means, as I take it, any agency or agencies he has designated under the preceding acts—\$500,000,000 of securities acquired by the Government.

And, in addition, by the provision of paragraph (c), on page 3, the War Finance Corporation is empowered to sell, market, or dispose of any such bonds not purchased by the corporation, which the Government now owns or may acquire.

Senator LA FOLLETTE. Now, then, what is the total amount of securities which may be sold, marketed, or disposed of by the War Finance Corporation under those two provisions?

Mr. MEYER. I think the exact amounts, Senator, could be more promptly given to you by the Director General or the Treasury Department, because they have the exact figures.

Senator LA FOLLETTE. Yes, I know the exact figures could, but in a rough way you can approximate to them, can you not?

Mr. MEYER. It would not be possible until the Director General has determined the amount that, under this authority, if granted, would be taken in connection with funding. As long as that very large amount and very important amount is indeterminate, I do not see that it would be possible to give you that figure. While the amount of additions and betterments are definite, perhaps, the Director General would not necessarily take obligations to the full extent of the additions and betterments from all railroads if it was not necessary, and some railroads might be able to do some financing in the investment market; their bankers might not ask the Director General to take any, so that it would not be possible to give you that figure, as far as I know.

Senator LA FOLLETTE. Well, from the latest available Treasury Statement, April 30, 1921, it shows that upon that date the Government held securities of the carriers, acquired under the Federal control act, or under the transportation act, to an aggregate of \$659,684,437.

Mr. MEYER. Yes: that figure is definite.

Senator LA FOLLETTE. Yes.

Mr. MEYER. But what would be taken in connection with additions and betterments if authority was granted is indefinite.

Senator LA FOLLETTE. That figure is definite, and the \$500,000,000 provided for in paragraph (a) is definite.

Mr. MEYER. Yes. I mean it is only definite as a maximum amount. It is not definite in—

Senator LA FOLLETTE. But it is definite as a limitation upon the power of the War Finance Corporation.

Mr. MEYER. Yes.

Senator LA FOLLETTE. Yes; and those two amounts taken together would aggregate something over a billion dollars, would they not?

Mr. MEYER. Yes; that might be. Of course \$500,000,000 is merely a maximum amount; it is not a definite amount.

Senator LA FOLLETTE. Well, I am asking for the outside.

Mr. MEYER. And out of the \$600,000,000 that you mentioned, a considerable part probably would not be marketable in the beginning. It might take quite a long time.

Senator LA FOLLETTE. Now, in addition, the memorandum of the Director General of the Railroads transmitted to Congress by the President July 26, 1921, shows that upon that date the carriers owed the Government approximately \$763,000,000 for additions and betterments. Now that, of course, sooner or later will be funded under the terms of the transportation act.

Mr. MEYER. Not necessarily all of it, because some of these roads may not ask for any funding, and some may be able to fund in the investment market.

Senator LA FOLLETTE. Well, judging from the past they are likely to ask for assistance right along and all the assistance that they are able to get under any legislation Congress adopts.

Mr. MEYER. I think conditions are improving in the investment markets, so that I hardly believe—

Senator LA FOLLETTE. If conditions should not improve, and if things should go the other way? I am just now talking of the limitations and possibilities of this proposed legislation. And that \$763,000,000 in the course of time is likely to be funded, or at least will be funded in whole or in part. That is a fair assumption, is it not?

Mr. MEYER. Yes; but it may be any part—it may be a small part.

Senator LA FOLLETTE. Yes.

Mr. MEYER. Nobody can say at this time what it would be.

Senator LA FOLLETTE. Yes, exactly. And if it were funded, that, together with the securities already acquired, which aggregate \$659,000,000, plus the \$500,000,000 which paragraph (a) provides for the War Finance Corporation acquiring from the President, would make a sum total of \$1,422,684,437, would it not?

Mr. MEYER. The \$500,000,000 that we would be taking from the director general is included twice apparently, isn't it, Senator, in your statement?

Senator LA FOLLETTE. I think not.

Mr. MEYER. The \$500,000,000 would be part of the additions and betterments.

Senator SMITH. Do you mean included in the \$763,000,000?

Mr. MEYER. Yes. May I trouble you to repeat your figures? Perhaps I did not understand them, Senator.

Senator LA FOLLETTE. Well, as I understand paragraph (a) of section 22 as amended, provides that the War Finance Corporation may purchase from the President up to the amount of \$500,000,000. That is true, is it not?

Mr. MEYER. Yes.

Senator LA FOLLETTE. And then under paragraph (c) the War Finance Corporation may sell, market, and dispose of any bonds and securities not purchased by the corporation which the Government has acquired from the railroads.

Mr. MEYER. Yes; merely acting as its agent at the request of the President.

Senator SMITH. Senator La Follette, may I ask him a question right there?

Senator LA FOLLETTE. Certainly.

Senator SMITH. I understood you to say—I have not investigated this—that the Government now holds the obligations of the roads to the amount of \$659,000,000?

Senator LA FOLLETTE. \$659,684,437, as I understand it from reading this memorandum from a Treasury statement of April 30.

Mr. MEYER. I think that is correct, Senator.

Senator SMITH. Now what I wanted to ask Mr. Meyer was this: My understanding was that this \$500,000,000 was asked in order to liquidate a part of that \$659,000,000.

Mr. MEYER. Of the securities now held by the Secretary?

Senator SMITH. Yes.

Mr. MEYER. No.

Senator LA FOLLETTE. No.

Mr. MEYER. It might be part of it; it could be any of the securities now held by the Secretary. It might be some of these equipment trusts which we have mentioned or it might be securities which the Director General in his settlements has taken or may have occasion to take.

Senator SMITH. I just wanted to get that clear in my mind.

Mr. MEYER. Yes. It might be, as a matter of fact, out of these securities to the full amount or to any part thereof.

Senator LA FOLLETTE. And if out of these securities to the full amount it would aggregate \$1,159,684,437, would it not? According to my hurried computation here that would be the amount.

Mr. MEYER. If the President has six hundred and odd millions of securities and we were to buy \$500,000,000 of them, we would have them instead of the President.

Senator LA FOLLETTE. Well, that is true as to this. That is the point I wanted to get in my mind.

Mr. MEYER. Yes; we can not add those two amounts together.

Senator LA FOLLETTE. Yes; but has he not other securities aside from the \$659,000,000?

Mr. MEYER. At the present time?

Senator LA FOLLETTE. Yes.

Mr. MEYER. I do not think so.

Senator LA FOLLETTE. Are you certain about it?

Mr. MEYER. He may have taken some since the statement came out, but I only have the same statement that you have, Senator.

Senator POMERENE. Will you pardon me if I interpolate there, Senator?

Senator LA FOLLETTE. Yes; certainly.

Senator POMERENE. Mr. Meyer, this is a pretty important matter, and a while ago, in answer to a question by Senator La Follette, you added the \$500,000,000 to the \$659,000,000, making the total which Senator La Follette has stated as \$1,159,000,000.

Mr. MEYER. No; I did not intend to assent to that.

Senator POMERENE. No; but a moment ago you did. At least that is as I construed it.

Mr. MEYER. I did not mean to. It was not my intention to assent to that, Senator.

Senator POMERENE. And I placed the same construction upon it that Senator Smith did here, namely, that this \$500,000,000 would not be an addition to the loan made by the Government or advances made by the Government to the railroads.

Mr. MEYER. It is not intended as an addition.

Senator POMERENE. But it would be a substitution to the extent that the \$500,-000,000 would be used.

Mr. MEYER. Yes; I quite agree. I thought I had made it clear.

Senator TOWNSEND (presiding). You did subscribe to it before you clearly understood it, and then you changed it.

Mr. MEYER. Yes; I misunderstood it in the first instance, but then afterwards I tried to correct it.

Senator LA FOLLETTE. Well, if you deduct the \$500,000,000 that you are empowered to purchase from the \$659,000,000, in round numbers, which the director general had on the 30th of April in railroad securities, it would leave \$159,000,000 plus all securities still in his hands, which you would have the right to purchase under paragraph (c).

Mr. MEYER. No; to sell for account of the President at his request.

Senator LA FOLLETTE. Well, you purchase, of course, under paragraph (a).

Mr. MEYER. Yes.

Senator LA FOLLETTE. I misspoke myself.

Mr. MEYER. Yes; I just wanted to make that clear.

Senator LA FOLLETTE. Yes; I want it corrected. Then, in addition to that, if the \$763,000,000, which the carriers owe the Government, approximately, should be funded into securities you would have the authority on request, under paragraph (c) to sell or market or dispose of \$159,000,000 plus \$763,000,000?

Mr. MEYER. That is correct, assuming, of course, there was a market for them.

Senator LA FOLLETTE. I understand. Somebody has handed me a memorandum here making that computation, and bringing it up to \$922,000,000. I have not done that myself.

Mr. MEYER. If that ideal condition were realizable, then the director general could settle up his accounts with the railroads and turn over a handsome sum toward the liquidation of the Government indebtedness, which would be a very desirable thing if it could be done.

Senator LA FOLLETTE. What do you mean by "an ideal condition"?

Mr. MEYER. An ideal condition by which the Government could realize on all its loans to the railroads, and get the cash for them, and use it after the settlements had been made with the railroads, that is, use the balance which would remain over, for the liquidation of the Government indebtedness.

Senator LA FOLLETTE. The trouble with that is that we do not know anything about when we are going to arrive at an ideal condition when the Government will be able to market these securities which it takes from the railroads. That is true, is it not?

Mr. MEYER. Yes; nobody can tell those things in advance.

Senator LA FOLLETTE. No, of course; and as I understand it the purpose of this legislation is to take securities from the railroads that are not now marketable. For the Government to take those securities?

Mr. MEYER. That is a part of it.

Senator LA FOLLETTE. Yes.

Mr. MEYER. But, in other directions, it is to authorize the Government to sell some of the securities which are now marketable or soon will be.

Senator LA FOLLETTE. Yes. Are you able to state what railroad securities the Government now has are now marketable at their face value?

Mr. MEYER. I think there are some. I could designate some that will be very soon.

Senator LA FOLLETTE. Well, I am not speaking of the future. You are no more of a prophet than anybody else, and nobody knows what the future is going to be. The whole world may be swept by a panic that will make it impossible to market any of these securities, and in that event the Government will be compelled to carry this whole load, will it not?

Mr. MEYER. Well, that is a matter of—

Senator LA FOLLETTE. Just answer that.

Mr. MEYER. That is a matter of judgement, of course.

Senator LA FOLLETTE. If that condition should arise?

Mr. MEYER. I would not say that any particular security was salable until I had made a contract to sell it. Then I would say it was salable.

Senator LA FOLLETTE. Yes.

Mr. MEYER: In my judgment, a considerable amount of these securities will be gradually marketable.

Senator LA FOLLETTE. Yes; I understand. By paragraph (e) of this bill "the proceeds of all bonds, notes, or other securities, sold by the President to the corporation or by the corporation as selling agent, shall be a fund to be used by the President for the purposes described in section 202 of the transportation act, 1920." I am just reading section (e) as a basis for this question. Now, according to your understanding of that section, to what uses can the proceeds so derived be put?

Mr. MEYER. I would prefer that you ask the Director General that question, because it really concerns him and not the War Finance Corporation as to the proceeds of the sales which the Director General might make.

Senator LA FOLLETTE. You are not prepared to answer?

Mr. MEYER. No.

Senator LA FOLLETTE. This bill provides in some section for reopening final settlements. Just where is that, what paragraph?

Mr. MEYER. That is paragraph (i) on page 2.

Senator LA FOLLETTE. What is the object of that paragraph, if you know?

Mr. MEYER. That is really a matter for the Director General. He has made a few settlements, and he wanted to have the power set forth in that section. I think he is able to testify on that in full, Senator.

Senator LA FOLLETTE. You are not prepared to testify as to that?

Mr. MEYER. We have nothing to do with the settlements with the railroads. That concerns the Director General.

Senator LA FOLLETTE. Mr. Meyer, under the transportation act the railroads are required to furnish to the Government obligations bearing a definite rate of interest of 6 per cent per annum. That is true, is it not?

Mr. MEYER. I think that is correct, Senator.

Senator LA FOLLETTE. Yes. Now, section 1 of this bill seems to provide that the President may accept security at his discretion, bearing interest of less than 6 per cent.

Mr. MEYER. Yes; but at a discount to compensate for diminished interest, by amortizing the difference.

Senator LA FOLLETTE. Well, that is the thing that puzzles me. I am not a financier or an accountant, and I want to ask you to work it out for me here, if you please.

Mr. MEYER. Yes.

Senator LA FOLLETTE. I will just state my question first, if you will permit me. I see that the bill provides that such security bearing less than 6 per cent interest shall be received, to quote from the provision, "at a price to yield an annual average return, including interest and appreciation, if held to and paid at maturity, of 6 per cent of such price." Now, in order to make clear just what this provision will

authorize, will you please be good enough to calculate for me the price at which the President under the provisions of this act will receive such bonds as the Seaboard Air Line refunding 4 per cent bonds due in 1959, if he be empowered to?

Mr. MEYER. He would not be authorized to do so.

Senator LA FOLLETTE. He would not be empowered to receive those because they run more than a period of—is it 10 or 15 years? I do not exactly remember.

Mr. MEYER. The maturity is January, 1930—that is the latest date. Am I right on that, Mr. Director General?

Mr. DAVIS. Ten years from the date of the expiration of Federal control.

Mr. MEYER. Yes. That would be March 1, 1930, wouldn't it?

Mr. DAVIS. Yes.

Mr. MEYER. That would mean that he would not be authorized to receive those.

Senator LA FOLLETTE. I would like to have you take a bond and work it out so we would understand what the transaction would be. Now, let me give you one that would come within the terms of the law. Take a Central Pacific 3½ per cent gold bond due August 1, 1929.

Mr. MEYER. A 3½ per cent bond may be calculated.

Senator LA FOLLETTE. Now, just make the calculation.

Mr. MEYER. That is a very complicated calculation. Tables are used for that, Senator.

Senator LA FOLLETTE. Well, are you prepared to do it now?

Mr. MEYER. I do not have a table with me. These things are all figured out mathematically. But a very simple case would be that of a one-year note bearing 6 per cent interest at par, which might be the equivalent of a one-year 5 per cent note at a little better than 99, because there is 1 per cent—

Senator LA FOLLETTE. I will ask you to work that out in words of one syllable that I can understand, if possible, and I think some of my associates around this table would enjoy having it worked out on that plan and submitted to the committee a little later.

Mr. MEYER. In writing?

Senator LA FOLLETTE. In writing.

Mr. MEYER. I shall be very glad to do that, Senator.

Senator LA FOLLETTE. So that we can see something about what the meaning of this legislation is.

Mr. MEYER. In the case of the bond of the Central Pacific to which you referred—I do not know whether there is any account with the Central Pacific—but say that other bonds might be taken so that the Government might get a little better security, perhaps, in that way, in some cases. But I do not think that is so very important, because the railroads could issue their notes at 6 per cent secured by their other security.

Senator LA FOLLETTE. Well, that will be for the committee to consider when they come to go into the matter more carefully.

Mr. MEYER. Yes, indeed.

Senator LA FOLLETTE. I think that is all I care to ask the witness this morning.

Senator TOWNSEND (presiding). Senator Kellogg?

Senator KELLOGG. No.

Senator TOWNSEND (presiding). Senator Fernald?

Senator FERNALD. No.

Senator TOWNSEND (presiding). Senator Smith?

Senator SMITH. No.

Senator TOWNSEND (presiding). Senator Pittman?

Senator PITTMAN. No.

Senator TOWNSEND (presiding). Senator Pomerene?

Senator POMERENE. No; I have nothing further.

Senator TOWNSEND (presiding). I think you understand, Mr. Meyer, what the Senators have asked you to prepare, and you will do that at your very earliest convenience.

Mr. MEYER. Yes, indeed.

Senator TOWNSEND (presiding). We will be glad to call on you again, Mr. Meyer. (The information requested of Mr. Meyer by Senator La Follette is here printed in full as follows:)

"EXPLANATION OF YIELD OR NET RETURN ON BONDS PURCHASED AT A DISCOUNT AND HELD TO MATURITY.

"When an investor purchases a bond at a price less than par he realizes a net return greater than an interest rate carried by the bond for two reasons: In the first place, the fixed sum receivable as interest represents a larger rate on the lower price at which the bond is purchased; in the second place, when the bond is paid in full at maturity

the holder receives a sum greater than the amount which he paid—in other words, he at that time profits by the amount of the discount. It would be possible to obtain the net yield in a very simple manner by dividing the total discount by the number of years elapsing between the date of purchase and date of maturity, adding this figure to the amount received annually in interest and dividing the sum by the price paid for the bond, were it not for the fact that the purchaser does not obtain a proportionate amount of the discount each year as he does the interest payments, but receives the entire discount at maturity. He therefore does not have the use of this sum in proportionate annual amounts and it is necessary to make an allowance for this loss of use which in finance is represented by the interest which he could obtain from such annual payments.

"To avoid the complex calculations which would otherwise be required there have been prepared tables of bond values which show the yields obtainable at various interest rates, maturities, and prices. To take a concrete case, such tables show that if an investor were to buy on September 15, 1921, a bond of the third Liberty loan of \$1,000 face or par value for the sum of \$901.16 he would receive a net yield of 6 per cent on his investment if he held the bond to maturity. Bonds of this issue bear 4½ per cent interest, payable semiannually, March 15 and September 15, and mature September 15, 1928.

"The proof of this and the explanation of the process may be shown by taking the sum paid for the bond, \$901.16, and charging against it compound interest at 6 per cent per annum, payable semiannually, or, in other words, 3 per cent each half year, also deducting the value of the coupons representing semiannual interest on the bond. Example:

Price paid for bond.....	\$901.16
6 months' interest charge, at 6 per cent per annum.....	27.03

Total.....	928.19
Deduct cash received from coupon representing bond interest.....	21.25

Total.....	906.94
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Price paid plus balance of interest due (at the rate of 6 per cent, payable semiannually) in excess of interest received, equals at the end of the first 6 months, as shown above.....	906.94
Next 6 months' interest charge, at 6 per cent, payable semiannually (3 per cent of \$906.94).....	27.21

Total.....	934.15
Deduct cash received from next coupon representing bond interest.....	21.25

Balance at end of 6 months, which is end of first year.....	912.90
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"Continuing this calculation for each succeeding six months' period gives the following results:

At the end of the first year (as given above).....	\$912.90
At the end of the second year.....	925.36
At the end of the third year.....	938.58
At the end of the fourth year.....	952.60
At the end of the fifth year.....	967.48
At the end of the sixth year.....	983.26
At the end of the seventh year.....	1,000.00

"At the end of the seventh year the bond matures and there is paid in cash its par amount, \$1,000, which meets the calculated requirement at that time as shown above.

"It therefore appears from the above that if an investor buys a \$1,000 bond due in seven years and bearing interest at 4½ per cent per annum payable semiannually at a price of \$901.16 he obtains a return of 6 per cent on his money if he holds it to maturity, for the reason that the sum of \$901.16 put at compound interest at 6 per cent payable and compounded semiannually, with semiannual allowances for the interest coupons of the bond, would return the sum of \$1,000 at maturity."

Senator TOWNSEND (presiding). Mr. Davis, we will now hear you.

STATEMENT OF MR. JAMES C. DAVIS, DIRECTOR GENERAL OF RAILROADS, WASHINGTON, D. C.

Senator TOWNSEND (presiding). Mr. Davis, what position do you occupy now in relation to the Government?

Mr. DAVIS. I am designated as Director General of Railroads, an agent of the President, under the provisions of the transportation act of 1920.

Senator TOWNSEND (presiding). How long have you been in that position?

Mr. DAVIS. I came to Washington the 15th of June, 1920, as general counsel to Judge Payne, who was then Director General. I continued as general counsel until the 23rd of March of this year, when I was appointed in my present position.

Senator TOWNSEND (presiding). Did you have anything to do with the preparation of this bill that is before us here, Senate 2337?

Mr. DAVIS. Yes, sir, in a general way. I talked over the general provisions of the bill with Mr. Meyer after I understood that this plan had been adopted, and then I was personally present at a conference with the chairman of the Interstate Commerce Committee of the House, Mr. Winslow, and Mr. Meyer and Mr. Henderson, the attorney for the War Finance Board, and two gentlemen who were designated to me as bill experts for the House, and we discussed the various provisions of a proposed bill, and I left after it had been generally talked of, and as I understand the result of that conference was the bill that was introduced in the House and the second bill that was introduced in the Senate.

Senator TOWNSEND (presiding). Now, Mr. Davis, the committee would be glad to hear from you in reference to your views regarding any portion of this bill, especially those that affect the administration of your office.

Mr. DAVIS. Mr. Chairman and gentlemen of the committee, I have not prepared a formal statement for the reason that I was not advised as to the particular questions that would be asked me. I would like, in order to clear up some complications, to just in a word explain, as I understand it, the attitude of the Railroad Administration, its present authority and the authority that it seeks conferred upon it by this proposed legislation, first.

Under section 202 of the transportation act of 1920 the President shall, as soon as practicable after the termination of Federal control, adjust, settle, liquidate, and wind up all matters, including compensation and all questions in dispute of whatsoever nature, arising out of or incident to Federal control. Now that is the broad authority under which the Railroad Administration is attempting to liquidate the disputes arising between the Government and the various corporations that were taken under Federal control.

Senator POMERENE. That is all classes of claims?

Mr. DAVIS. That is all classes of claims. That includes not only the claims as between the Government and the individual carriers, but the third persons. We have a tremendous amount of claims, personal injury claims, loss and damage, reparation, fire loss, and claims of that character.

Senator POMERENE. In other words, between the railroads and the public?

Mr. DAVIS. Between the railroads and the public. Now, the present legislation does not affect in any way that authority which the President is now exercising.

Senator POMERENE. Well, may I ask you a question there just to clear up the whole thing?

Mr. DAVIS. Yes.

Senator POMERENE. This pending legislation in no wise affects your authority to settle any claims which the railroads, or any of them, may have against the Government growing out of depreciation or anything of that sort?

Mr. DAVIS. No, sir; it absolutely makes no change in the authority of the President to adjust, settle, and liquidate in the final settlement these claims which the Government may owe.

Now as an incident to the settlements there is a special provision in the transportation act of 1920, section 207, referring to the refunding of carriers' indebtedness to the United States.

Senator SMITH. Section 207?

Mr. DAVIS. Section 207; yes, sir. Now that has a special reference to indebtedness created for what is known as additions and betterments chargeable to capital account. When the carriers are under private control and under normal conditions, it is not assumed that the rates fixed by the Interstate Commerce Commission will afford a sufficient income to enable the carriers to make capital extensions, and in normal times the corporations ordinarily provide for additions and betterments by the issuing of bonds, putting it as an additional capital account.

Senator LA FOLLETTE. May I just interrupt you to make an inquiry?

Mr. DAVIS. Yes, sir.

Senator LA FOLLETTE. I want to inquire whether rates have not been maintained high enough to enable the carriers in a great many instances to establish a surplus out of which they have made that character of investments.

Mr. DAVIS. I would say yes to that, partly, Senator, as you very well recognize. Where the Government makes a fixed rate to carriers that have unequal earning capacities, to enable a poor carrier to earn 6 per cent, the fortunate carrier may earn more than that, and I have no doubt that in the past prosperous carriers have been able to make capital expenditures out of their earnings. That is one of the mooted questions in all rate issues.

Senator KELLOGG. All of their capital expenditures?

Mr. DAVIS. Oh, no; only a portion of them. I say that a great many of the railroads have been fortunate enough in the rates that were fixed to make some capital expenditures out of the surplus arising from rates, but I do not understand that the rates particularly contemplate that result.

Now during the period of Federal control there was expended by the Government for the carriers in the matter of additions and betterments an aggregate sum of \$1,144,681,582.39. These expenditures in some instances were made by and with the consent of the carriers carrying out a definite plan of improvement that the carriers had, which was interrupted by the war. In other instances they were made against the protest of the carriers, and without their consent. And the question as to whether the Government shall bear the expenses of these additions and betterments, or whether the carriers shall bear them is one of the matters that we have to settle in the final settlement. There were a great many additions and betterments purely for war purposes that were rendered useless, that the Government is obliged to stand. Of course these expenditures were made at peak prices of labor and material during the war, and cost the carriers more than they would under ordinary circumstances.

Senator POMERENE. What was that figure, Mr. Davis?

Mr. DAVIS. \$1,144,681,582.39.

Senator LA FOLLETTE. Mr. Davis, may I just ask you at that point this question? Supposing the Government had not taken over the railroads and the railroads had continued in the hands of the private owners, would they not under their obligations as common carriers, have been required to make those expenditures to meet the exigencies of war?

Mr. DAVIS. Well, I could not answer that categorically, Senator, and I do not think you would expect that character of an answer. In a great many of these additions and betterments it is a question of judgment as to necessity of the improvement. The carriers could have gotten along without a great many of them, and still in a way have fulfilled their public obligations. I say there would have been the ordinary obligation on the carrier, if private control had continued throughout the war, to make the necessary improvements to fulfill its public obligations. We will agree about that, I guess.

Senator LA FOLLETTE. Yes. And I do not know whether we would agree to this further statement that the railroads were not in condition to meet the requirements of the situation and were fortunate in having the Government take them over and relieve them of that.

Mr. DAVIS. Well, that is a question for debate, Senator. I might debate it with you, Senator, if it would be of any purpose. A great many of the roads were in condition, and a great many of them were not. I have a personal knowledge of the Middle West railroads, and I believe they were entirely able to comply with the obligations to the public during the war. With the roads serving the Atlantic coast there were congestions there that made a different situation.

Senator LA FOLLETTE. Yes.

Mr. DAVIS. That is a debatable question, sir.

At the point of the interruption, I was suggesting the amount of additions and betterments, which is in excess of a billion dollars. Now, of that amount, \$381,649,-957.12 represents equipment purchased by the Government for the railroads and allocated to the various railroads. The equipment consisted of 100,000 freight cars and 2,000 locomotives. I have a communication made to the chairman of the House Committee on Appropriations, that I do not expect anybody ever read, that I can give you, Senator, that gives you all of these details.

Senator TOWNSEND (presiding). I will be glad to have you put that in the record.

Mr. DAVIS. Yes; I will put it in the record.

(The report furnished by Mr. Davis is here printed in full, as follows:)

LETTER FROM THE DIRECTOR GENERAL OF RAILROADS TO THE CHAIRMAN COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, TRANSMITTING A STATEMENT (AS OF MAY 1, 1921) OF THE CONDITION OF THE UNITED STATES RAILROAD ADMINISTRATION IN THE MATTER OF LIQUIDATING QUESTIONS IN DISPUTE ARISING OUT OF OR INCIDENT TO FEDERAL CONTROL.

LETTER OF TRANSMITTAL.

UNITED STATES RAILROAD ADMINISTRATION,
Washington, D. C., May 5, 1921.

Hon. JAMES W. GOOD,
Chairman Committee on Appropriations,
House of Representatives, Washington, D. C.

MY DEAR MR. GOOD: Replying to your favor of the 21st ultimo, requesting a general statement of the financial situation of the Railroad Administration, as to the funds available to complete settlements to be made with the carriers of claims "arising out of or incident to Federal control," and also asking an estimate, if possible, as to additional amounts, if any, in excess of existing appropriations, that will be necessary to complete such final adjustments, I am attaching hereto a detailed statement of the situation as it at this time exists.

As to the final amount of claims that will be filed, and the amount of funds necessary to complete the final adjustments, both of these items must necessarily be estimates of the claims that will be eventually filed and the amount that will be necessary to complete final settlements.

In addition to the uncertainty involved in the inability to definitely state the amounts just suggested the final liability of the Railroad Administration will necessarily depend upon the determination by the courts of important differences that now exist between the Railroad Administration and the carriers. These differences very largely involve the construction of what is known as the upkeep section of the standard contract, and refer specially to the disputed items of maintenance, repair, renewal, retirement, and depreciation.

The complex and variant character of the formulas upon which the claims filed on final settlement have been prepared, and the unexpected excessive amounts of these claims, has required time to properly examine and analyze each claim. The results of the final settlements which have been made amply justify the time and expense required in making these examinations.

Any additional or more detailed information which you or your committee may desire will be promptly furnished upon application.

Yours, very truly,

JAMES C. DAVIS, Director General

STATEMENT OF THE CONDITION OF THE UNITED STATES RAILROAD ADMINISTRATION IN THE MATTER OF LIQUIDATING QUESTIONS IN DISPUTE ARISING OUT OF OR INCIDENT TO FEDERAL CONTROL.

I.

NUMBER OF PROPERTIES UNDER FEDERAL CONTROL WITH WHICH ADJUSTMENTS MUST BE MADE, AND AMOUNT OF CLAIM FILED.

There were 555 separate properties taken over by the Government. The standard contracts, however, include with various companies certain subsidiary lines, so that the total number of adjustments that must be made with lines under Federal control aggregate 445. These are divided as follows:

First-class roads.....	161
Second and third class roads.....	110
Terminal and switching roads.....	174

In addition to the roads above described there are 855 short lines, each making claim that it was under Federal control from January 1 to June 30, 1918, on which latter date most of them were formally relinquished. The status of these short lines with the Railroad Administration has been a matter of dispute, and will be more particularly discussed in another paragraph of this statement.

There are also a substantial number and amount of maritime claims growing out of the taking over and operation of steamship lines connected with railroad operation.

Up to this time 73 first-class roads have filed their claims on final settlement, 30 second and third class roads, and 46 terminal and switching companies, making the

total number of claims filed 149. These claims as filed represent about 33.5 per cent in number and about 58.5 per cent if measured by mileage. I think it fair to say that the claims as filed will represent about 50 per cent of the aggregate amount that will be finally claimed by the carriers.

The total amount of the claims filed to date is \$633,708,281. If the claims yet to be filed are prepared on the same general lines as those already filed, the total claims presented on final settlement will aggregate a little more than \$1,250,000,000.

In addition to the claims of the carriers on final settlement, there are claims for damages arising out of what is known as the Minnesota forest fires; the claims of some 855 short lines; the lap-over obligations of the Railroad Administrations in the matter of loss and damage, personal injuries, fire losses, labor claims, overcharges, and taxes arising out of the Federal control, and also a balance due on account of the contracts and operation of the inland waterways, it being provided in section 201 of the transportation act that the Railroad Administration shall pay out of its appropriation liabilities arising out of the completion subsequent to the termination of Federal control of contracts entered into prior to March 1, 1920, and operating obligations arising prior to the same date in the matter of inland waterways.

Reparation claims and judgments, awards, and decrees against the administration are not included in this estimate for the reason that provision is made for the payment of these claims in paragraph (e) of section 206 and paragraph (e) of section 210 of the transportation act, reparation claims being more particularly referred to in the section of this report immediately following.

Up to May 1, 1921, the Railroad Administration has made final settlements with 47 roads, of which 19 were first class, 1 second and third class roads, and 17 switching and terminal companies.

Forty-four of the roads settled with had claims amounting to \$96,821,801, and were allowed in final settlement \$42,286,914, or 43.68 per cent of amount claimed. The other three, being debtor companies, and having claims amounting to \$27,219,066, were disposed of by funding on account of additions and betterments to amount of \$6,800,000. The funding obligations are represented by notes of the companies, running 10 years from March 1, 1920, secured by first-mortgage bonds as collateral.

The limited number of adjustments so far concluded is accounted for by the fact that during the calendar year 1920 comparatively few claims on final settlement were filed, and the further fact that the claims that have been filed are so much larger than was anticipated, and upon such variant and complicated formulas, especially as to maintenance, that reasonable time is required for the analysis of each claim.

II.

CLAIMS OF THIRD PERSONS AGAINST THE RAILROAD ADMINISTRATION, BEING ADDITIONAL TO THOSE SET UP BY THE CARRIERS ON FINAL SETTLEMENT.

It may be of interest to give you a short summary of the nature and character of the claims of third persons against the Railroad Administration, separate and apart from the claims of the carriers, based on the operation of the property during the period of Federal control.

(a) *Reparation.*—In a schedule of rates as complex as the one under which the American railroads operate, many inequalities, mistakes, and misunderstandings naturally arise, and there are inevitably many inherent inequalities. A horizontal increase of rates, such as the Director General made during the period of Federal control, as set out in the provisions of General Order No. 28, when applied to the innumerable classifications and combinations of joint, community, territorial, and other rates, exaggerated the existing inequalities and increased the controversies as between the shippers and the administration.

There are now pending before the Interstate Commerce Commission over 2,000 formal complaints for reparation against the director general. There are also over 10,000 informal complaints that have been filed with the Interstate Commerce Commission. All of these complaints involve unknown amounts, for the reason that a complaint filed for a single shipment may be duplicated in innumerable instances in other parts of the country, and may involve a tremendous tonnage movement.

Provision for the payment of these claims is made in paragraph (e) of section 206 and paragraph (e) of section 210 as above set out, but attention is called to this matter for the reason that the Railroad Administration has supervision over same.

Under the standard contract these formal and informal complaints should be defended for the administration by the individual carriers, but in many cases no one carrier is solely responsible for the defense of any one complaint, and, because of competitive traffic reasons and, in some instances, intimate relations between the carriers and the complaining shippers, it has been deemed essential that, where the

facts justify it, the administration should undertake the defense of these claims, and that has been provided for by a special department of the Division of Law of the Railroad Administration. The result of the disputes so far disposed of in this matter has amply justified this practice on the part of the administration.

(b) *Lap-over claims for personal injury, loss and damage, overcharge, labor, fire losses, and taxes.*—A very large number and amount of claims for personal injury, loss and damage, overcharge, labor, fire losses, and taxes were left over as a result of Federal operation. These claims are liabilities of the Director General, growing out of Federal operation, which must be adjusted by the Railroad Administration. Some idea of the volume and magnitude of these claims can be drawn from the fact that for the year ending December 31, 1917, the railroads operated in the United States killed 6,739 persons and injured 20,351, and during the same period paid out for loss and damage claims \$35,382,012; in 1918 paid out \$55,734,150; and in 1919, \$104,243,782. The increase in loss and damage claims, I assume, should be largely accounted for by the increased volume and value of the tonnage hauled.

The gross income of these properties from transportation for the year immediately preceding Federal control was about \$4,000,000,000. The number of individual transactions which made this tremendous total and the controversies arising from same are almost beyond comprehension.

For the purpose of expediting the adjustment of these claims regional offices have been established in some of the principal railroad centers of the United States, where the supervision of these claims is being cared for. Since the end of Federal control the larger claims of the character above described have been adjusted through these regional offices at the rate of about \$2,000,000 per month. These claims are now reducing in number, and the regional organization should be terminated within a very short time.

(c) *Short lines.*—There are 855 what are generally known as short-line railroads. These are the roads provided for in section 204 of the transportation act, whereby adjustment of deficit in railroad operating income may be made by the Interstate Commerce Commission during the period of Federal control, when the particular road "was not under Federal operation."

The status of these short lines with the Railroad Administration has been the subject of continuous controversy since the inception of Federal control. In the early part of the period of Federal control the Railroad Administration held such lines were not so operated by the Government as to entitle them to make any claim against the Administration for either operating deficit or compensation. Under the provisions of section 14 of the Federal control act most, if not all, of these short lines were formally and in writing relinquished by the Federal Administration on or before June 30, 1918.

The question as to whether or not these roads were under Federal control and operation during the six months' period from January 1 to June 30, 1918, has been recently decided by referees, appointed by the Interstate Commerce Commission, and also by the Interstate Commerce Commission, both tribunals holding that the short-line roads were under Federal control and operation from January 1 to June 30, 1918. If the decision of the Interstate Commerce Commission is sustained, the short lines will have a claim against the Railroad Administration for the six months ending June 30, 1918, for Federal control and operation.

Whatever amount may be necessary to adjust the short-line claims—and this has been variously estimated at from \$15,000,000 to \$25,000,000—will be in addition to the amount considered by former Director General Hines in his statement, in April, 1920, to the Appropriation Committee.

(d) *Minnesota forest fires.*—In October, 1918, a most devastating fire occurred in the forest regions of Minnesota. Roughly speaking, some 1,500 square miles of territory was burned over; 4,000 homes and 5,000 barns were burned, and a number of good-sized towns wholly destroyed; 450 people lost their lives, and some 2,000 people received personal injuries sufficient to require medical attention.

The burned area is served by the Great Northern, the Soo Line, and the Duluth, Missabe & Northern Railroads, all of them at the time of the fire under Federal control.

During the conflagration the wind was blowing at a velocity of from 50 to 70 miles per hour, and, as a result of this hurricane, an irresistible and devastating conflagration occurred, which swept the area of country above described. The money loss has been variously estimated at from \$25,000,000 to \$40,000,000.

Originally it was not supposed there was any ground upon which a liability against the Railroad Administration could be sustained, for the reason that there were a very large number of independent fires, many known not to have been set out by any railroad and others of unknown origin, and it was believed to be impossible to attribute the loss directly to any particular fire or fires set out by the operation of the railroads, the existing hurricane and the large number of independent fires prohibiting any definite location as to liability.

The Supreme Court of Minnesota, in the recent case of *Amerson v. Director General of Railroads* (179 N. W., 48), held that, if a fire started by a railroad united with a fire or fires of other or unknown origin, it was a question of fact for a jury to determine whether or not the fire started by the railroad was a material or substantial element in creating the damage, and, if so, the defendant railroad so starting the fire would be liable. In addition, the court held that, although there was a hurricane blowing, except for which the separate fires mentioned would not have spread and united as they did, the great conflagration could not be considered an act of God.

This ruling has resulted in the institution of some 5,000 cases against the Railroad Administration in the State courts of Minnesota, and so far quite a number of judgments have been rendered against the administration in the lower courts on account of these claims. It is the opinion of the law department of the Railroad Administration that, by reason of the very large number of persons interested, it will be comparatively easy for attorneys who are efficient in that line to obtain sufficient evidence to make substantially all of these claims a jury question.

An unfortunate feature of this controversy is the fact that most of the claimants have entered into written contingent fee contracts with a limited number of lawyers. The State courts of Minnesota sustain contracts of the character entered into, and of any sum paid, either as the result of judgments or by voluntary payments the actual claimants will not receive more than two-thirds of the amount involved. If the Railroad Administration is finally compelled to pay judgment or adjust these claims, the aggregate amount of attorneys' fees that would be allowed under these contracts would be out of all proportion to the actual services that it will be necessary for the attorneys to perform.

The damages resulting from this fire were not considered at the time the appropriation to enable the Railroad Administration to adjust its liabilities was made, and the ultimate plan to be adopted by the Administration on this very complicated question is one which will require very careful consideration.

(e) *Inland waterways*.—Under the provisions of section 201 of the transportation act the inland canal and coastwise waterways, which, during the period of Federal control, had been under the jurisdiction of the Railroad Administration, were, at the end of Federal control, transferred to the Secretary of War, said section providing that the Secretary of War shall assume and carry out unfinished contracts, and that the Railroad Administration must pay out of its funds "all payments under the terms of such contracts" (contracts made by the Railroad Administration prior to the termination of Federal control), and all claims "arising out of the operation of such transportation facilities by or through the President prior to the termination of Federal control."

At the time the last appropriation was made for the Railroad Administration it was estimated that the liabilities of the inland waterways, which the Railroad Administration must pay, would aggregate \$3,479,011. Up to this time the administration has been obliged to pay an aggregate on this account of \$4,592,896.99, or the amount of \$1,113,885.99 in excess of the estimate at the time the appropriation was made, and I am advised that the additional amount that the Railroad Administration will be obliged to pay on account of the inland waterways will aggregate at least \$1,500,000, so that the liability of the Railroad Administration in this connection will be over \$2,500,000 more than was originally estimated. The additional claims are largely accounted for by reason of changes made in the specifications of the contracts and the increased cost of labor.

III.

SUMMARY OF LIABILITIES, ASSETS, AND ESTIMATES MADE BY FORMER DIRECTOR GENERAL HINES.

In April, 1920, former Director General Walker D. Hines and his staff appeared before a subcommittee of the House Committee on Appropriations and at some length went into the details of the financial condition of the Railroad Administration. The statements made at that hearing were printed as a House document, and generally distributed to the public.

Mr. Hines, in his statement to the Committee on Appropriations, estimated the operating loss of the Government for the period of Federal control at \$900,478,756.56. This estimate did not include claims of short line railroads, Minnesota forest fire losses, or a sufficient sum for lap-over loss and damage, personal injury, ordinary fire losses, taxes, labor, overcharge, and inland waterways claims, all of which constitute general expenses of the Railroad Administration, and must be considered in estimating any loss that will finally result to the Government because of Federal control. A reasonable estimate of the amount necessary to liquidate these claims is \$100,000,000.

In addition to the claims of third persons, above referred to, Mr. Hines failed to make allowance for compensation of noncontract roads in excess of the standard

return, undermaintenance of way and structures and equipment, fire losses of carriers' property, and additions and betterments made solely for war purposes, the cost of such additions and betterments being originally charged to the individual carriers, but which, upon return to private control, and being found useless to the carrier, must be borne by the Administration. The adjustment of these latter claims may require the additional sum of \$200,000,000.

All of the items of expense were either not considered by Mr. Hines or underestimated, and, as they properly come under the head of the general operating expenses incurred by the Government, the operating loss in excess of Mr. Hines's estimate will be some \$300,000,000, or instead of an operating loss to the Government during the period of Federal control, as estimated by Mr. Hines, of \$900,000,000, it will be more nearly \$1,200,000,000.

It must be borne in mind that this estimate is based on making settlement upon the Administration's construction of the upkeep section of the standard contract. Should the Supreme Court ultimately approve the carriers' contention in regard to maintenance, as set out in said upkeep section, the liability of the Railroad Administration would be very largely increased.

Calling special attention to the claims for undermaintenance, of the claims already filed, aggregating \$633,000,000, \$183,000,000 is for undermaintenance of way and \$176,000,000 is for undermaintenance of equipment, making a total claim for undermaintenance, in the claims already filed, of \$359,000,000. As the claims now filed represent only about 50 per cent of all the claims, it is probable that the claims for undermaintenance will run between \$700,000,000 and \$800,000,000; the Railroad Administration records fail to support claims for overmaintenance sufficient in amount to offset these amounts, and it is quite evident that some allowance must be made on account of undermaintenance.

The Railroad Administration now has to its credit, in available cash, \$228,977,311.46. This is made up of balance of appropriations of February 28, 1920, and May 8, 1920; money in the hands of the Treasurer of the United States Railroad Administration; amount due from the Post Office Department, which was included in the recent deficiency appropriation bill; and the estimated amount in the hands of the treasurers of the carrier corporations, acting as trustees in liquidating the small claims growing out of Federal control.

In addition to the foregoing, there is an indefinite and indeterminate amount due the Railroad Administration, in the way of uncollected assets, such as freight bills, traffic balances with non-Federal carriers, claims for demurrage, and amounts due from the War and Navy Departments, the Shipping Board, and other governmental agencies. It is impossible to state with any degree of accuracy the cash value of these claims, as many of them are in dispute, but the liabilities of the Administration in the matter of loss and damage, personal injury, overcharge, fire losses, labor claims, and the like will be in excess of this indeterminate amount.

Your attention is particularly called to certain assets, growing out of settlements final or partial already made, held by the Railroad Administration in the way of obligations of the various railway corporations. These assets are most of them in the form of definite, negotiable obligations, bearing annual interest, and either evidenced by equipment trust obligations, which carry with them a lien on the equipment, or secured by mortgage bonds of the various companies, deposited as collateral. A general description of these obligations is as follows:

Bonds	\$26,695,000.00
Notes	92,762,038.08
Receivers' certificates	1,400,000.00
Equipment trust obligations	310,073,100.00
 Making a total of	 430,930,138.08

The notes above described include a loan to New York, New Haven & Hartford Railroad Co., made in the early part of Federal control, and heretofore fully explained to Congress by former Director Generals. This note is secured by mortgage bonds as collateral. The balance of the notes represent obligations given by sundry lines for additions and betterments, the refunding notes being also secured by the mortgage bonds of the several companies executing same. The equipment trust obligations represent the sale by the Railroad Administration to the carriers of 100,000 freight cars and 2,000 locomotives constructed under orders of the Federal Administration during the period of Federal control and allocated to the various carriers. The bonds held by the Railroad Administration are largely first mortgage bonds of the Boston & Maine Railroad, taken by the Administration in an effort to assist in the reorganization of that company.

As subsequent settlements are made additional obligations of debtor roads will be taken and held by the Railroad Administration, such indebtedness being for purposes provided for and in accordance with the transportation act.

If the railroad companies are solvent, then these obligations should be worth their face value, with accrued interest, and if the Railroad Administration could cash, as the necessity arises, a sufficient amount of these securities, it has in all probability assets considerably more than sufficient to pay all of its obligations.

If, instead of making a direct appropriation for the use of the Railroad Administration, the Secretary of the Treasury could be authorized, upon a proper showing of necessity, to take over at their face value, from time to time, such amounts of the obligations of the railroads held by the Railroad Administration as may be required to complete the liquidation, the liabilities of the Railroad Administration could be adjusted without a direct appropriation in its favor.

If an arrangement of this kind is not feasible, an additional appropriation of \$200,000,000 will be required to continue the Railroad Administration liquidation up to the end of the fiscal year 1922.

IV.

DIFFERENCES BETWEEN THE RAILROAD ADMINISTRATION AND THE CARRIERS.

Serious differences of opinion have arisen as between the carriers and the Administration concerning the construction of certain provisions of the standard contract. The most substantial contention which has developed is in the construction of section 5 of the standard contract, which refers to upkeep, and involves the matter of maintenance, repair, renewal, retirement, and depreciation.

Briefly, it is the contention of the administration that the proviso in paragraph (a) of section 5 recognized the impossibility in these various matters of determining by what is known as a physical comparison, as between the commencement of Federal control and its termination, the amount of maintenance, repair, renewal, retirement, and depreciation that the Government was liable for, and that this section provided for adjusting these differences by what is known as the accounting method, whereby the liability of the railroad administration was limited to the expenditure for labor and material, after equating as to the prices thereof, or the payment into funds of the same amount that the carriers expended for the same purposes during the test period, and that such an accounting, using the language of paragraph (a) of section 5, "shall be taken as a full compliance with the foregoing covenant."

The carriers, on the other hand, relying on certain statements contained in the President's message accompanying the President's proclamation taking over the properties, and also certain general language of the Federal control act and expressions contained in paragraph (c) of section 5 of the contract, contend that they are entitled to a physical comparison, to the end that their property shall be returned at the termination of Federal control "in substantially as good repair and in substantially as complete equipment as it was at the beginning of Federal control."

These differences of construction will amount to several hundred million dollars.

V

SUMMARY.

I have no desire to exaggerate the importance or the complexities of making this final adjustment of the 26 months of Federal control and operation of the transportation systems of the country. It is undoubtedly the greatest adjustment between one tenant and over five hundred landlords that has ever occurred. A brief repetition of familiar figures emphasizes this.

The railroads constituted an immense industrial plant, comprising, in round numbers, 250,000 miles of main line, with all of the innumerable structures which go to make up an operating railroad—shops, yards, roundhouses, machine shops, storehouses, bridges, and the like; 2,500,000 freight cars, in all stages of repair; 66,000 locomotives; 55,000 passenger cars; some \$600,000,000 of materials and supplies scattered over the many lines of road, with no inventory taken at the time; 555 separate companies, with nearly 2,000,000 employees; the gross earnings of the properties for the year ending December 31, 1917, over \$4,000,000,000, with net earnings for the same period of nearly \$1,000,000,000, and the entire value of the property estimated at from \$15,000,000,000 to \$20,000,000,000. This property was operated under the abnormal conditions of a world war. The demand for labor and materials in all industrial enterprises was greatly in excess of the supply. In the effort to combine this

stupendous aggregate of independent lines into a single and coordinating concern much of the operating property of the individual carriers was inextricably intermingled. This adjustment and straightening out of this wonderful adventure on the part of the Government presents for solution novel, complex, and important questions wholly without precedent.

The Government took this great plant overnight. It was taken at a time when serious and almost unprecedented winter weather greatly embarrassed and increased the expense of operation, and at a time when congestion of traffic, largely brought about by unusual exigencies in the business incident to the war, and priority orders of war material intended for export, had in effect practically broken down the ordinary efficiency of railroad transportation, especially those eastern lines connecting with Atlantic ports.

The property was in all stages of obsolescence. It was taken under a proclamation issued by the President, who, in a statement of even date with the proclamation, declared that he would recommend to Congress the passage of a law providing "that the railway properties will be maintained during the period of Federal control in substantially as good repair and as complete equipment as when taken over by the Government."

The Congress, following this recommendation, in the Federal control act provided that the standard contract should contain such provisions "as may be requisite in order that the property of each carrier may be returned to it in substantially as good repair and in substantially as complete equipment as it was in at the beginning of Federal control."

Most of the roads entered into standard contracts, the terms of which attempt to provide rules by which the questions of upkeep shall be determined. It is differences of opinion as to the construction of these rules from which arise most of the controversies between the Railroad Administration and the carriers in carrying out final settlements.

In conclusion, I want to suggest and emphasize that in reaching final settlements the disputes to be adjusted between the carriers and the administration are not mere matters of accounting, to be settled by the application of fixed and definite rules that may be followed by accountants or statisticians, but every settlement presents serious practical questions, many of them new and novel, that can only be fairly determined by men on both sides who have had actual and extensive railroad experience in the field.

If you or your committee desire any additional information I will be glad to furnish same upon application, or, if you prefer, appear before you in person and explain more in detail the progress we are making in our efforts to carry out the mandate of Congress to "adjust, settle, liquidate, and wind up all matters, including compensation, and all questions and disputes of whatsoever nature arising out of or incident to Federal control."

Respectfully submitted.

JAMES C. DAVIS,
Director General.

Mr. DAVIS. This amount of equipment has been allocated to the various railroads, and they gave the Government trust certificates which represent the entire expense of the Government in the matter, and these certificates are held by the Director General, as agent of the President, in the sum of about \$310,000,000. The difference between the \$310,000,000 and the \$381,000,000 has been paid in cash by the various railroads.

Now, these \$310,000,000 of equipment trust certificates are negotiable; they are secured by a first lien on the equipment; they are payable in annual installments, 15 annual installments. The first annual installment was paid on the 1st of January, 1921. The interest was promptly paid. I think there was not a default on the 1st of July, 1921. And they are the character of instruments that in normal times are current as solvent, desirable railroad securities.

Senator POMERENE. Now, these were issued under some legislation.

Mr. DAVIS. Yes; there was a special act passed in November, 1919, authorizing this issue.

That leaves a balance of additions and betterments of \$763,031,625.27. Of this amount \$60,925,000 has already been funded under the general power of the President under the transportation act by the taking of long-term notes, leaving a balance in round numbers of something over \$700,000,000 of additions and betterments properly chargeable to capital account which have not been funded.

Now, it is the judgment of the Railroad Administration, after a very careful review of this situation, that in the process of funding the Government will not be required

to fund, nor will the carriers be entitled to the full amount of this \$700,000,000, for the following reasons:

First. Some companies can not give adequate security, and there is no purpose on the part of the Railroad Administration to extend this indebtedness unless they give us a security.

Second. Some companies will be debtor to the administration in such an amount that after refraining from charging additions and betterments there will still be a balance due to the administration, or if there is a balance due the corporation it will be materially less than the amount of the additions and betterments.

Third. There are companies that will not require, because of their financial condition, the funding to the full amount of the expenditure made by the Government.

The transportation act lodges with the President a discretion in this funding, and acting as his agent, I do not expect to fund to the full amount, and expect to do just as little funding as seems to be consistent. So that it is my judgment that the limit of funding under this proposed legislation would be \$500,000,000, and if I was pressed I would say that it would be under \$500,000,000 rather than over \$500,000,000.

Senator POMERENE. That is because you would doubt the character of some of the securities?

Mr. DAVIS. Not only that, sir, but because of the necessities of the individual roads. Take a road that can not show real necessity for the funding, or that has got ample assets of its own. We would not think of funding that, because it is not necessary. There are some of the roads that prefer to go into the market and borrow money at high rates of interest on short terms, hoping for better times, than to make a long term loan with the Government. There are a number of exigencies of that kind that will reduce, in my judgment, the amount that will be necessary to fund, to not exceed \$500,000,000.

Senator SMITH. May I ask you right there, because it is so pertinent an inquiry: That is not in addition to what has already been funded?

Mr. DAVIS. Yes, that is in addition to what has already been funded. We have funded \$60,000,000, and that would be in addition.

Senator SMITH. It was stated that the Government held new obligations of the roads of \$659,000,000.

Mr. DAVIS. Well now, Senator, let me explain that.

Senator SMITH. Well, the point I wanted to get is this. I just wanted to complete my statement so that you can explain it.

Mr. DAVIS. I beg you pardon. I did not mean to interrupt you.

Senator SMITH. Senator La Follette made the point that there was \$659,000,000 held by the Government now against the roads, and that in order to meet the present situation that \$500,000,000 additional would be asked, and that section (e) of the present bill—I believe it is (e)—would be in addition to that. I am asking you the question if the \$659,000,000 does not represent the funding by the Government of this present capital account?

Mr. DAVIS. No, sir. Let me explain. The United States Treasury takes all the obligations that it can get hold of, of all the different branches of the Government. This \$659,000,000 represents not only the obligations that the director general has taken, growing out of not only Federal control but all liquidation, but also represents the obligations that the Interstate Commerce Commission has taken in the adjustment of what is known as the six months' guaranty period, and I think the loans that were made out of the revolving fund—

Mr. CLARK. I am not quite clear about that.

Mr. DAVIS (continuing). Please let this be understood, that I am only speaking for the Railroad Administration, and the obligations of the railroads that we hold now that are in the hands of the Treasurer are as follows: We have bonds, \$26,695,000. And this is as of May 1, 1921. These are changing all the time, but this is as of May 1, 1921. Notes, \$92,762,038; receivers' certificates, \$1,400,000; equipment trust obligations, \$310,073,100. That makes an aggregate of \$430,930,138.

In a letter that I wrote the chairman of the Appropriations Committee of the House I made this suggestion, on page 17 [reading]:

"If, instead of making a direct appropriation for the use of the Railroad Administration, the Secretary of the Treasury could be authorized, upon a proper showing of necessity, to take over at their face value from time to time such amounts of the obligations of the railroads held by the Railroad Administration as may be required to complete the liquidation, the liabilities of the Railroad Administration could be adjusted without any direct appropriation in its favor."

Senator POMERENE. Will you send a copy of that statement to the members of the committee here?

Mr. DAVIS. Yes, Senator; I will be very glad to. I am trying to get somebody to read this, Senator, and if you will agree to read it I will send you a copy.

Senator POMERENE. I think I have read everything that you have issued on this subject that has come to my office, and I will be glad to read it.

Mr. DAVIS. I worked a long time on this and I have not found anybody yet that has ever read it, and if I find one man that will read it I will be very glad to send it to him.

Senator POMERENE. I will promise you that I will read it.

Mr. DAVIS. Under the transportation act of 1920—and I won't go into details of reference, because it takes a little time, and I would have to look it up—the Director General of Railroads has the right to use the payment of these obligations in a fund that, under section 202, which you called Mr. Meyer's attention to, could be used in the final liquidation. But there is some question as to the right of the Railroad Administration to sell the obligations of the railroads. And so far as the Railroad Administration is concerned, the purpose of this proposed legislation is to give the Railroad Administration the authority to sell the obligations of the carriers which it hold and use the proceeds in continuing and closing up the liquidation.

Senator POMERENE. Now, Mr. Davis, may I ask you this: Was there any special reason, at the time the transportation act was passed, or any of the enabling legislation after that, why the power to sell was not given to you? I do not recall hearing the matter discussed.

Mr. DAVIS. I would say that that was an oversight; that if anybody had thought of it, they would have put that in. It is a power that I do not see how it can do anything but help the Government, and the whole purpose of this proposed law is to let the public, the investing public, carry these obligations of the railroads rather than have the Government carry them.

Senator TOWNSEND (presiding). I think we will now have to adjourn until to-morrow morning at 10 o'clock.

(Thereupon, at 12 o'clock noon, an adjournment was taken until 10 o'clock a. m. of the following day, Thursday, August 11, 1921.)

REFUNDING OF RAILROAD DEBT.

THURSDAY, AUGUST 11, 1921.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met, pursuant to adjournment on yesterday, at 10 o'clock a. m., in room 410 Senate Office Building, Senator Charles E. Townsend, presiding.

Senator TOWNSEND (presiding). The committee will come to order. Mr. Davis, you may proceed.

STATEMENT OF JAMES C. DAVIS—Continued.

Mr. DAVIS. In the statement that I made yesterday in discussing the purpose of this bill it was suggested that among other things it was necessary to give the President or the director general, acting as agent of the President, authority to sell the obligations of the railroads which he is taking in the course of liquidation. I want to modify that statement just a little bit and suggest that in section 202 of the transportation act, appropriating unexpended appropriations, the following language was used:

"For these purposes"—

That is, the purposes of liquidation—"and for the purpose of making the payments specified in subdivision (a) of section 201, all unexpended balances in the revolving fund created by the Federal control act, or of the moneys appropriated by the act entitled 'An act to supply a deficiency in the appropriation for carrying out the act entitled 'An act to provide for the operation of transportation systems while under Federal control, for the just compensation of their owners, and for other purposes,' approved March 21, 1918,' approved June 30, 1919, are hereby reappropriated and made available until expended."

Now please note the balance, which is the part I desire to call attention to [reading]:

"And all moneys derived from the operation of the carriers or otherwise arising out of Federal control, and all moneys that have been or may be received in payment of the indebtedness of any carrier to the United States arising out of Federal control, shall be and remain available until expended for the aforesaid purposes."

You will note that it is limited to payment of indebtedness and does not directly authorize the President to sell these obligations in this particular section.

I want, however, to call the attention of the committee to section 7 of the Federal control act. I will read the section, because it is rather instructive, at this point. Section 7 is as follows [reading]:

"SEC. 7. That for the purpose of providing funds requisite for maturing obligations or for other legal and proper expenditures, or for reorganizing railroads in receivership, carriers may, during the period of Federal control, issue such bonds, notes, equipment trust certificates, stock, and other forms of securities, secured or unsecured by mortgage, as the President may first approve as consistent with the public interest. The President may, out of the revolving fund created by this act, purchase for the United States all or any part of such securities at prices not exceeding par, and may sell such securities whenever, in his judgment, it is desirable at prices not less than the cost thereof. Any securities so purchased shall be held by the Secretary of the Treasury, who shall, under the direction of the President, represent the United States in all matters in connection therewith in the same manner as a private holder thereof. The President shall each year, as soon as practicable after January 1, cause a detailed report to be submitted to the Congress of all receipts and expenditures made under this section and section 6 during the preceding calendar year."

It is quite possible that under this section of the Federal control act, if the only question involved here was the right of the President to sell these negotiable securities at the prices that the Government paid for same, or took same, that we would have that right.

Senator LA FOLLETTE. Will you just refer me to that section, if you please?

Mr. DAVIS. That is section 7 of the Federal control act, Senator. I refer you to sections 6 and 7. And I merely wanted to call your attention to this provision of the law, so that it would not be considered that I had unqualifiedly said that the director general had no authority to sell any of these certificates.

Senator KELLOGG. Do you take it that that section is an authority to sell the securities that you receive under the transportation act?

Mr. DAVIS. Well, I simply wanted to call attention to that situation, Senator, so that the unqualified statement that I made would not stand without that explanation.

Senator KELLOGG. But is it your opinion that this is an authority to sell the securities received under this act, or that it is an authority to sell the securities received under both acts, or all three acts?

Mr. DAVIS. Well, I am not quite prepared at this time to give you an opinion about that.

Senator TOWNSEND (presiding). One would probably have to study its terms some to determine that.

Mr. DAVIS. And it was because of this obscurity that we are asking for the specific power; in view of the fact that the War Finance Corporation had no authority to buy we included then the unqualified right to sell, so there could be no question as to the title to the securities if they were disposed of. I only wanted to make that explanation so that it would not appear in the record without that qualification.

Now, I have no desire to extend this matter, but I am very anxious to be as helpful as I can, to give the committee all the information that I have in the matter.

Permit me to say this, that there are two branches in the adjustment of these matters that are to some extent separate. That is, the general settlements, and the funding. We are so far progressing in the final settlements—and while I have no desire to be bound by anything definite, because it is so uncertain a matter that you can not be definite—but I think I can see the end of the liquidation of Federal control with reasonable certainty. I believe I can estimate with some reasonable certainty the amount of money that it is going to take to finally liquidate the claims. I am speaking now exclusive of the funding.

Senator TOWNSEND (presiding). How much do you think that would be, Mr. Davis?

Mr. DAVIS. I think, Senator, that by December 31, 1922, unless there is serious litigation involving the construction of the contract, that the bulk of these adjustments should be concluded.

Senator LA FOLLETTE. What is that date, Mr. Davis?

Mr. DAVIS. December 31, 1922, about a year and a half from now, Senator. Of course, there will be details, but the bulk of the adjustments ought to be concluded by that time if we can continue as we are doing now.

Senator WATSON. You now have available \$149,000,000?

Mr. DAVIS. As of July 1. We have spent some since then.

Senator WATSON. Yes.

Mr. DAVIS. I am speaking in round numbers, because they change every day. We are paying out money every day and we are getting in money every day.

Now it has been our estimate that it would require about \$200,000,000 in addition to what we have, to complete these settlements, in other words, it would take about \$349,000,000, in addition to the assets in the field that have not yet been all realized on, to conclude the final settlements.

Senator LA FOLLETTE. Will you state again what you have on hand?

Mr. DAVIS. Well, as of July 1, we had in round numbers \$149,000,000. We have paid out quite a little bit since then. I think, Senator, I gave you these details in a letter that I wrote you.

Senator LA FOLLETTE. Yes, you wrote me a letter, and I think you did, but I do not have it with me, and the figures were not in my mind now.

Mr. DAVIS. And the committee will understand that we are engaged in collecting every day and paying out every day, and that our balances vary with the day's transaction.

Senator LA FOLLETTE. Oh, certainly.

Mr. DAVIS. It has always been expected that the amount necessary to complete liquidation would be provided for by a direct appropriation, and I have made that estimate to Gen. Dawes and to some of the committees in the House who have called for this information.

Now the funding, as I explained on yesterday, in my judgment—well, I will say it will not exceed \$500,000,000 if this power is granted, because it is within the discretion of the President, whether he funds \$100,000,000 or \$500,000,000. He has the authority now to enter into this funding proposition if he so desires.

Senator LA FOLLETTE. Well, pardon me, it won't exceed that if he determines that it shall not exceed that, is that what you mean to say? You say it is in his power.

Mr. DAVIS. Yes, sir. Well, he has definitely indicated—

Senator LA FOLLETTE (interposing). But supposing he should change his mind, and conditions should change, and all that?

Mr. DAVIS. Well, of course, Senator, you can imagine or suppose almost anything. I am saying that as the Railroad Administration looks at it now—

Senator LA FOLLETTE. Exactly.

Mr. DAVIS (continuing). The limit of funding under any circumstances will be \$500,000,000.

Senator LA FOLLETTE. Yes; but the power is beyond that.

Mr. DAVIS. Oh, the power is beyond that; yes, sir.

Senator LA FOLLETTE. The power is beyond that.

Mr. DAVIS. Yes, Senator, the power is beyond that.

Senator LA FOLLETTE. Exactly.

Mr. DAVIS. So that when you contemplate what may be done under this bill—for instance, Senator La Follette on yesterday in examining Mr. Meyer suggested that there was something over \$600,000,000 in the hands of the United States Treasurer and that we might take other obligations, and I think it aggregated up to over \$1,000,000,000. In my judgment the sale of these certificates will be limited by the necessities of the Railroad Administration and the necessities of the Railroad Administration in final settlement, and in funding, in my best judgment, will not exceed \$700,000,000, of which \$200,000,000 will be used in the ordinary liquidation that we are now carrying on, and \$500,000,000 will be used in the wise discretion of the President in funding in those cases where he gets good security and he thinks it is desirable to do so.

Senator LA FOLLETTE. Now, let me ask you a question in that connection. What I wanted to get right in that connection is upon whom, or whose decision, are these amounts that may be required dependent upon your own decision as Director General? That is one of the elements of certainty or uncertainty in the matter. Are none of the claims pending before the Interstate Commerce Commission?

Mr. DAVIS. None of the claims that I am speaking of. That is another proposition.

Senator LA FOLLETTE. That is another proposition.

Mr. DAVIS. That is the guaranty period?

Senator LA FOLLETTE. Yes; that covers nothing but the guaranty period.

Mr. DAVIS. That covers nothing but the guarantee period, yes.

Senator LA FOLLETTE. Now supposing the railroad companies are not satisfied with your decisions, and go to the courts. That is a possibility, is it not?

Mr. DAVIS. They would have no right to go to the courts, sir, in the matter of funding.

Senator LA FOLLETTE. No, no; I did not mean that, but in the matter of claims.

Mr. DAVIS. Oh, yes.

Senator LA FOLLETTE. Yes.

Mr. DAVIS. That is a very hotly disputed question, sir.

Senator LA FOLLETTE. Exactly.

Mr. DAVIS. Yes, sir.

Senator LA FOLLETTE. And there is a wide difference indicated, is there not?

Mr. DAVIS. Well, that difference is well indicated by the opinion of the Interstate Commerce Commission that was rendered last Saturday, in which a majority stand with the Railroad Administration on the question of the inefficiency of labor, and there are two dissenting opinions very well written, which show the opinion of the other side.

Senator POINDEXTER. Who rendered the dissenting opinions?

Mr. DAVIS. Commissioner Daniels wrote one, Commissioner Potter wrote another, and Commissioner Campbell wrote a very short dissenting opinion. The Interstate Commerce Commission stood 7 for the majority opinion, 3 dissenters, and one not taking part.

Senator POINDEXTER. Did those three dissenters hold that this claim based on the alleged inefficiency of labor was a valid one?

Mr. DAVIS. Chairman Daniels held squarely, in my judgment, that it was. Commissioner Potter has a theory that he says does not involve the inefficiency of labor, but which the Railroad Administration thinks does. He held it on a different theory.

Senator LA FOLLETTE. But held the same conclusion?

Mr. DAVIS. But he reached the conclusion that in some way some additional compensation should be allowed, and the net result of it, in my judgment, is based on the inefficiency of labor. It is the difference in the cost of applied material, which is a polite way to name inefficiency of labor, in my judgment. Those opinions are very valuable contributions to this subject.

Senator POINDEXTER. They would be very interesting.

Mr. DAVIS. They would be very instructive to read.

Senator LA FOLLETTE. There was a pretty persistent piece of information afloat here for a number of days that the commission had decided it the other way.

Mr. DAVIS. I am not officially advised about that.

Senator LA FOLLETTE. You are not officially advised about that?

Mr. DAVIS. No, Senator. I am not officially advised about that. I read something in the newspapers about it.

Senator LA FOLLETTE. Well, I heard something about it outside of the newspapers. Go ahead, sir.

Mr. DAVIS. I would like to explain, Senator Smith, if I can, the effect of this funding, and possibly clear up in your mind, at least, the method by which this will be done, and if you will permit me I will take a concrete case.

Senator SMITH. I will be very glad to have you do so.

Mr. DAVIS. The Railroad Administration has settled with the Great Northern Railroad, which is one of the substantial and solvent railroad systems of the country. In that settlement there was a charge against the Great Northern Railroad, and in favor of the Railroad Administration, of additions and betterments, that aggregated \$16,997,642. Those were capital expenditures made by the Railroad Administration during the 26 months of Federal control. We charged that to the railroad, and we made it pay this sum in the final settlement. As a conclusion of that final settlement, we paid the Great Northern Railroad \$6,500,000.

Now if we had funded—and we do the funding in round figures—if we had funded \$15,000,000 of additions and betterments for the railroad we would have taken their negotiable obligations secured by their current mortgage bonds for \$15,000,000, payable on the 30th of June, 1930, ten years from the expiration of Federal control, and instead of paying them \$6,500,000 we would have paid them \$21,500,000.

Now, Senator La Follette, may I make two explanations? You asked Mr. Meyer the purpose of putting in paragraph (i) in this bill, authorizing the President to readjust any final settlement made with the carriers before this subdivision takes effect, for the purpose of funding in accordance with the provisions of this proposed law, any indebtedness due such carrier. That was put in at my suggestion in order that we might treat the corporations that have come in and accepted our theory of the settlement, and made what I consider fair settlements, in the same way that we do the others, give them the same advantage as to funding that we give to the roads that have been holding out. That is the only purpose of it.

Senator LA FOLLETTE. Well, what is the effect of it?

Mr. DAVIS. Well, take this specific case. We have collected from the Great Northern Railroad \$16,997,642 of capital expenditures. Now, if this proposed law passes and the Great Northern would apply to have all or any part of its additions and betterments funded, we would exercise the same discretion in advancing to them, if you please, on approved security the proportionate amount of additions and betterments that we do to the other roads that have not made the settlement. It is simply that the roads that have come in promptly and made fair settlements, according to our construction of the contract, should not be put at a disadvantage, and that was the only purpose of this provision. It was not to open up generally the final settlement. It was just in that particular. That was the history of it.

Senator LA FOLLETTE. Well, to what extent, in effect, will it open up final settlements?

Mr. DAVIS. Well, it will only open it up to the extent that I have stated, that we would not place these roads who have come in and settled fairly, at a disadvantage as against those that we have not settled with. We would exercise a discretion in the amount which we would fund.

Senator LA FOLLETTE. Yes; but having opened up the final settlement, it stands open, does it not?

Mr. DAVIS. No, it says "readjust." It would be only opened up in that one particular.

Senator LA FOLLETTE. Well, now, supposing when that final settlement is opened up they proceed to file some additional claims.

Mr. DAVIS. Oh, no, no, sir; it could not be done.

Senator LA FOLLETTE. Well, now, let me just finish. Just wait a moment. Growing out of matters that have developed, as they might represent, since the final settlement.

Mr. DAVIS. Could not consider it at all.

Senator LA FOLLETTE. You know, of course, that the English Government has declined to make any adjustments with their railroads until all final settlements are concluded, do you not?

Mr. DAVIS. No, sir; I am not advised definitely about that. But I would like to have the committee understand quite definitely that this provision as to readjust-

ment is only limited to a readjustment as to funding, and would not reopen the final settlements, and the adjustment would only be made on condition that the final settlement would stand as it originally was drawn, with the exception that they would be granted the privilege of funding such as other roads are granted, and it would in no way contemplate the re-opening of the final settlement or the permission for the filing of additional claims.

Senator LA FOLLETTE. To what extent have final settlements been made? What percentage?

Mr. DAVIS. Well, now, I was coming to that.

Senator LA FOLLETTE. If you are coming to that in some further statement, I will not now interrupt you about that.

Mr. DAVIS. Have you any other questions just at this point, Senator Smith, about the funding, because I am anxious that you should get at least my theory of it clear in your mind.

Senator SMITH. Yes. Now, there is a concrete case of the Great Northern Railroad. The Government on its own initiative spent \$15,000,000, did it not?

Mr. DAVIS. Well, call it \$16,000,000. It was over \$16,000,000.

Senator SMITH. Well, now, in the final settlement the Great Northern gave to the Government as security for this amount certain—

Mr. DAVIS (interposing). No, no; we collected from them in cash, Senator.

Senator SMITH. You collected from them in cash?

Mr. DAVIS. Well, we took it out of their compensation. They had \$62,000,000 compensation, and we took out of their compensation nearly \$17,000,000 of capital account.

Senator SMITH. I see; you collected from them in cash.

Mr. DAVIS. Yes, sir; at least we charged them with it.

Senator SMITH. After deducting what the Government spent on the road from what was due them in the way of compensation, you gave them the balance.

Mr. DAVIS. Yes, sir.

Senator SMITH. Now, you are permitting them, pending final settlement, to fund a part—

Mr. DAVIS. No; there is no funding at all. We have absolutely settled with the Great Northern Railroad, and they have no claim against the Railroad Administration of any kind or character. We have got a receipt in full. They are ended.

Senator POINDEXTER. I understand the whole business of the Government administration with that road has been finally closed.

Mr. DAVIS. Absolutely settled, Senator Poindexter.

Senator SMITH. You have just deducted what the Government had spent on the road from what the Government owed them as compensation?

Mr. DAVIS. Yes, sir; made them pay in cash the capital expenditures.

Senator SMITH. Made them pay in cash the capital expenditure, and then you turned over to them the balance that was due them for compensation?

Mr. DAVIS. Yes.

Senator KELLOGG. Do you consider subdivision (i) very important?

Mr. DAVIS. Why, Senator Kellogg, it is only important as an exhibition of a spirit of fairness. There are about 100 carriers that have come in voluntarily and have abandoned their claims for inefficiency of labor and have made fair and just settlements. Those carriers have been deprived of the privilege of funding. Now, because they have come in promptly, I thought they ought to be put on the same basis as some that have not come in and settled. It is just in a spirit of fairness; that is all.

Senator KELLOGG. Some of the roads you would have to fund?

Mr. DAVIS. Yes; of course we have funded as we have gone along, necessarily, in small amounts.

Senator KELLOGG. There are some that are coming that you would have to fund; you could not collect it?

Mr. DAVIS. Yes, sir; there will be some roads that haven't any assets, and they owe us, and we have got to do the best we can with them. We lost money operating them.

Senator SMITH. May I ask one question here? The purpose, then, of this present bill is, in a way, to convert the process of settlement with these roads into something like a revolving fund. You take the obligations of the road whose capital account must be funded, sell those to the War Finance Corporation—

Mr. DAVIS. Yes.

Senator SMITH (continuing). They in turn convert the same into cash, turn the cash back to you, so that you may meet the other obligations or the other settlements that grow out of not the capital account but the ordinary settlements?

Mr. DAVIS. Yes, sir; that is one of the purposes; and then the purpose is to permit the funding. If this bill passes and there is any sort of a normal demand for 6 per cent railroad securities, we ought to be able to do the funding and the settlement without asking any more appropriations from the Congress. If the investing public will take the obligations that the Railroad Administration has taken, and they are the character of obligations that the investing public ordinarily takes, why we could clean this up without any more demand on the Treasury.

Senator SMITH. Well, the real object of this legislation is to avoid asking any further appropriation from Congress, is it not? Is not that the real object?

Mr. DAVIS. Well, it is one of them, but the real object is to furnish to the carriers, in a time like this, some ready cash that they need for the purpose of rehabilitating their property, largely the purchase of materials and supplies and the repair of equipment.

Senator KELLOGG. You do not mean to furnish them out of the Treasury, you mean furnish them out of that which the Government owes them?

Mr. DAVIS. Yes; and in connection with the funding, Senator.

Senator KELLOGG. That is what I mean.

Mr. DAVIS. There is no gratuity about this. It is all value received and taken on approved securities.

Senator STANLEY. As I understand it, under the existing law, the probability at least is that these obligations which have been turned over to the Government by the railroads would, when converted into cash, go into the general fund of the Treasury?

Mr. DAVIS. No; there is a provision of the transportation act that if we sold, that any of the avails will be continued for liquidation, if necessary. If the liquidation is completed, of course, if we had any cash on hand, or had any securities, they would be turned into the Treasury.

Senator STANLEY. Well, under the existing law, under the transportation act of 1920, say that a railroad turned over to the Government, or to any department of it, \$50,000,000 of securities which are not negotiable after they get into the hands of the Government, because the Government has no authority, as I understand it, to sell them or dispose of them—supposing the Government held those securities until they became due and were paid?

Mr. DAVIS. Well, of course, they would be covered into the Treasury unless the Railroad Administration was in existence and needed money. They are the property of the United States. They are absolutely the property of the United States.

Senator STANLEY. Now, under this act these securities can be converted into cash at an earlier date and kept in this revolving fund.

Mr. DAVIS. Yes, sir.

Senator STANLEY. That is the purpose of this legislation?

Mr. DAVIS. Yes; and if there was any excess, why, it would go back into the Treasury.

Senator STANLEY. Excess over the \$500,000,000?

Mr. DAVIS. Yes; or over the expenses of the Railroad Administration, the cost of liquidation.

Senator TOWNSEND (presiding). One point there that I wanted to get clear in my mind, Mr. Davis, and that is in reference to section (i). You take the case that you mentioned.

Mr. DAVIS. The Great Northern; yes, sir.

Senator TOWNSEND (presiding). The case that you mentioned. The railroad was obliged to pay \$16,000,000 on capital account that had been expended for it?

Mr. DAVIS. Yes, sir.

Senator TOWNSEND (presiding). Now, you say that you think that that railroad ought to be given the same treatment that is given to other railroads that settled subsequent to the passage of this act?

Mr. DAVIS. Yes, sir.

Senator TOWNSEND (presiding). Now, the fact that the railroad paid \$16,000,000, how would that affect their credit? Would they not be better able to go out and borrow from the public the amount they needed to carry that capital account?

Mr. DAVIS. Well, the difficulty about borrowing money from the public, as I understand it, Senator, and I do not pose as a financial expert, is the higher rate of interest at this time. If the Great Northern Railroad went into the market to borrow money now it would probably have to pay 7 or 7½ per cent. If the obligations were funded, as we plan, why it would be a 6 per cent obligation, and the general railroad credit is very much depressed at this time, and there is an inability to get short-term loans at anything except rather exorbitant prices, and you can not float a long-term loan now on the market at 6 per cent.

Senator TOWNSEND (presiding). Yes. Well, now, your idea is that by the enactment of this law your corporation will be able to take these notes or obligations from good corporations such as the Great Northern?

Mr. DAVIS. Yes, sir.

Senator TOWNSEND (presiding). And I take it that they are good?

Mr. DAVIS. Yes, sir; they are good.

Senator TOWNSEND (presiding). Their security is ample?

Mr. DAVIS. Yes, sir.

Senator TOWNSEND (presiding). You expect to dispose of that at not more than 6 per cent, do you not?

Mr. DAVIS. Yes, sir; but in anything like normal times, Senator, a 6 per cent obligation is negotiable, and it has been the hope of everybody that we are on the road toward normalcy, and that within a very short time the War Finance Corporation could dispose of these prime securities to the investing public.

Senator TOWNSEND (presiding). Yes. Well, I hope that is true. But what I had in mind was that if the Great Northern Railroad Co. was relieved of the \$16,000,000 which it owed the Government, which the Government would seek to refund at a 6 per cent rate, why would it not be in as good a position as the Government to go out to the same investing public and get money at 6 per cent?

Mr. DAVIS. Well, the trouble about the railroads is that they have got a crying need for money now. There is going to be a normal increase in transportation tonnage and, I should say, a seasonal increase. We have got to get more coal, because people have got to get coal or freeze. There is a larger movement of grain. And it will not be long, probably, until the equipment to the capacity of the railroads will be called upon, and they have got 15 or 16 or 17 per cent of their box cars in bad order, and they have no money. They owe for materials and supplies. Since the 1st of November there has been an unprecedented falling off in the volume of tonnage moved.

Now, the railroads in April and May were showing a better increase of net, but they were showing no increase in gross. That means that they have been obliged to defer and postpone their maintenance of way and structure and their maintenance of equipment, and the crying need of the railroads at this time is ready money.

Now, if as you suggest the Great Northern Railroad would have to wait until times are normal to float a 6 per cent bond, why they would lose the opportunity of spending the money at this time when it is most needed, and when it is the thought of people who are wiser than I am in these matters that it would aid very much toward restoring the whole normal commercial situation of the country. I think that is one of the thoughts in the mind of the people that are projecting this bill.

Senator TOWNSEND (presiding). Well, do you personally, from your own experience as railroad director, know that there is a great existing emergency to-day which must have assistance from the Government if the railroads are to be maintained and operated?

Mr. DAVIS. Mr. Chairman, I would say from a pretty careful study that I have to make of the settlements that we are making, and the accounts of the railroads, and the statement of their earnings, that there is a very grave crisis in the railroad situation, and that there is a sufficient emergency to justify the Government of the United States in assisting to help rehabilitate the roads.

I wonder if you would object to my expressing just how this thing strikes me, as a personal proposition?

Senator TOWNSEND (presiding). That is just what we want.

Mr. DAVIS. I mean as a personal proposition. I have no brief for the carriers here. I represent the Government, and my whole business is to prevent imposition on the Government.

As a result of the 26 months of Federal control there is no question but what to a greater or less extent the individual organizations of the railroads were more or less disorganized. They came out of Federal control with, to some extent, disorganized forces. They were obliged to resume private operation. The purpose of Federal control had been to place all the transportation systems of the United States into one great plant, and to some extent they had to be unscrambled. Some plans of Federal operation had to be abandoned.

Then following the guaranty period, and I am not going to express an opinion as to the merits of the national working agreements, except to say that the corporations themselves did not enter into those agreements, and they found embarrassment about them, and I think they found an added expense.

Now, when the guaranty period ended the 1st of September, for September and October most of the roads had quite an unusual amount of business. It looked as though the roads were on a high road to a normal condition.

About the 1st of November what seemed to be a buyers' strike all over the United States struck the country, and the tonnage dropped off so subnormally that some of the best paying roads in the United States did not make their operating expenses.

Take the months of April and May.

Senator SMITH. You mean a credit strike, not a buyers' strike.

Mr. DAVIS. Well, there wouldn't anybody buy. I don't know how you would describe it, Senator.

Now, as the result of that, as late in months like April and May a great many of the solvent roads did not make operating expenses, and during six months ending May 30 many roads showed operating deficits, and the situation is that they have not paid their current bill for materials and supplies, they are not keeping up their maintenance of equipment, and they are not keeping up their maintenance of motive power.

It seems to me that this is an exigency that is the result of the war, and what the Government is asked to do in this case is to refrain from collecting certain amounts that these roads owe, and do the same for the transportation system of the United States that the Government is doing for France and England and Italy and Germany, in extending the obligations growing out of the war.

Now, that is the way I look at it. That is my personal view about it. Maybe I am wrong.

Senator LA FOLLETTE. Right there—with just this difference, that you are asking for authority to do this thing, and that the Government is making those extensions without any authority, and in violation of the acts that were passed by the Congress with respect to the foreign loans.

Mr. DAVIS. Senator, that is a question of etiquette that I can not discuss with you.

Senator KELLOGG. Mr. Davis, now in the sums that you are paying the railroads, not talking about the funding for betterments or improvements, but the other payments you are talking about helping the railroads, are you paying anything, or are you authorized to pay anything except that which the Government owes?

Mr. DAVIS. We are not paying anything except what the Government owes.

Senator KELLOGG. Well, can you?

Mr. DAVIS. No, sir; and I would not if I could.

Senator KELLOGG. Then when you are talking about helping the railroads you mean to help them by paying the debts to the railroads?

Mr. DAVIS. I used that word unfortunately.

Senator KELLOGG. Yes; perhaps you did.

Mr. DAVIS. Trying to get money in their hands to rehabilitate, and it is the money that the Government owes them. That is what we are trying to do.

Senator KELLOGG. Now, as to the funding of the indebtedness which the railroads now owe for betterments and improvements made during the war. You are proceeding to fund this in compliance with the act of Congress known as the transportation act, and using only the discretion as to the amount that you shall fund which that act authorized the President to exercise, are you not?

Mr. DAVIS. Absolutely, sir.

Senator TOWNSEND (presiding). Now, Mr. Davis, I had not quite finished some questions I wanted to ask you in reference to the necessity, in your judgment, of this legislation. Now, the solvent roads—I take it there are solvent and insolvent roads?

Mr. DAVIS. Yes, sir.

Senator TOWNSEND (presiding). About what percentage of them are solvent?

Mr. DAVIS. Oh, I would not venture an estimate of that. There are a great many of what are known as ordinarily dividend-paying roads that are supposed to be solvent. If things do not get better they will all be insolvent, I imagine.

Senator TOWNSEND (presiding). That is, some of them will not be able to pay their dividends?

Mr. DAVIS. Oh, yes; there are probably a number in that situation.

Senator TOWNSEND (presiding). Well, now, those roads that are solvent and have made settlements in full, or can make settlements with you in full, the only pressing need for them, as I understand it from your testimony, is their need for cheaper rates of interest?

Mr. DAVIS. Well, ready money.

Senator TOWNSEND (presiding). Well, they can get ready money if they have the security by paying a larger rate of interest, can they not?

Mr. DAVIS. Well, I am hardly qualified to answer that, as to the money market. Senator. I don't know. I know the railroad credit is very low, and where you are borrowing large sums like millions a difference of between 6 per cent and 7½ or 8 per cent would amount to quite a lot of money, and if you get short loan you would probably have to pay a commission, and they might have to pay altogether 8 or 9 per cent. I don't know about that, but I know it is the current thought of men that are

interested in and have examined this question that it is practically impossible for the railroads to make current loans. And short loans are not desirable because of the high rate of interest.

Senator TOWNSEND (presiding). Now, are you prepared to make a statement to the committee giving your reasons why the Government is obligated, or should be obligated to enact the legislation and carry out the provisions that are carried in this proposed bill?

Mr. DAVIS. I tried to state on yesterday, Senator, and I can repeat it, that the fixing of rates by the Interstate Commerce Commission—and, of course, you all appreciate that the railroads do not voluntarily fix their own rates—does not contemplate that what is known as capital expenditures shall be paid out of current revenues.

Now, the theory of the Government in fixing the standard return was to give to the railroads, as compensation for the use of the property, substantially the same income that they were deriving from the rates that the Interstate Commerce Commission had permitted them to charge.

Now, during this period of Federal control the Government expended on these railroads, in some instances involuntarily, and in some instances by agreements with the railroads, \$1,100,000,000 of additions and betterments properly chargeable to capital account, and now in our final settlements we are making the roads pay out of the compensation that the Government gave them these capital expenditures that under normal circumstances the roads do not pay, but they fund in the way of long-time securities, and the proposition is that the Government will loan, if you please, the credit to the railroads, to extend their debt for capital expenditures, and that is why it has appealed to me on the broad plane of justice as the fair thing for the Government to do.

You probably will recall that when the Esch-Cummins bill passed the Senate it had a provision that authorized the funding of all the additions and betterments at the option of the roads, and in the House that was changed so that the discretion was given to the President to fund, and that is the way we have it now. If the bill that the Senate passed had gone through the House, this would have been a right that the carriers had to demand.

Senator SMITH. Now, right at that point, your contention is that the obligations of the roads to the Government for the expenditures for capital improvements, should be funded for the reason that the compensation that the Government is to pay the roads in the way of—

Mr. DAVIS (interposing). Rent, if you please.

Senator SMITH (continuing). Of earnings, or rental.

Mr. DAVIS. Yes.

Senator SMITH (continuing). Ought to be given to the roads to meet their current expenses, like they would have done had they not been under Government control.

Mr. DAVIS. Absolutely. And that the compensation fixed by the Government did not contemplate—that is, based on the same theory that the rates were—the using of that compensation for capital expenditures.

Senator KELLOGG. Well, did not the Government contract with the railroads, under the transportation act, that it would fund a certain amount of indebtedness?

Mr. DAVIS. Yes.

Senator KELLOGG. The contract provides for it, does it not?

Mr. DAVIS. Yes; there is a provision for refunding, Senator.

Senator KELLOGG. There was a provision for funding.

Mr. DAVIS. Of course, funding was contemplated in the whole scheme of Federal control.

Senator KELLOGG. And contracted for?

Mr. DAVIS. Yes.

Senator WATSON. In other words, when the Government took charge of the railroads they made improvements and betterments during the period of Federal control amounting to \$1,100,000,000.

Mr. DAVIS. Yes, sir.

Senator WATSON. The railroads had nothing to do with that.

Mr. DAVIS. Yes.

Senator WATSON. The Government did that, and those improvements were chargeable to capital account.

Mr. DAVIS. They made them if the corporations agreed, and if they did not agree they made them anyhow.

Senator WATSON. Now, what effect will it have on the railroads and the financing of the railroads and the operation of the railroads, if this legislation is not passed before the 15th of January, which it can not be, in my judgment?

Mr. DAVIS. Well, Senator, that is a question that I hardly feel able to answer. It would be presumptuous for me to suggest, except to say this, that the railroads

will go into the winter probably facing an increased tonnage with entirely inadequate equipment, and the general public will suffer because of inefficiency of service, which is very essential to all business industry, and having had a large agricultural experience out in Iowa I can say that it is absolutely essential to the agricultural interests of this country. They will complain more bitterly if the railroads do not have properly equipped cars and engines to handle their crops than probably any other branch of commerce in this country.

Senator WATSON. My reason for making that statement is this, that if we take a recess, which it seems that we are determined to do, we will not reconvene here until the 20th of September, and then we will have two months and two weeks in which to pass a tariff bill and a tax bill, and that is all that Congress can do, that the Senate can do, and in my judgment it will have very hard work to do that.

Senator LA FOLLETTE. I wish to present a request for the calling of former Secretary of the Treasury and Director General McAdoo as a witness here, and also Gen. Hines.

Senator KELLOGG. Mr. Chairman, I don't see that we need a lot of witnesses here, and I think we ought to go on with Mr. Davis and finish this up at once.

Senator TOWNSEND (presiding). Well, I am very anxious to do so, and as I stated to the committee the other day, when this bill was presented to me for introduction I had not given it any particular attention. I don't think very many members of the committee had. I wanted to get the ideas of the people who had prepared this bill. I wanted to get them so that we could understand what their views were. Then I realized that the committee would have to meet and, if we are concluding to go on with it, to determine upon the course of procedure that we were to take. Now, that was the only object. I called the committee when Senator Cummins was away, at his request.

Senator KELLOGG. Well, Mr. Chairman, I would like to ask if this committee has met and authorized hearings on this bill?

Senator TOWNSEND (presiding). It has not.

Senator KELLOGG. Well, then I object to going on with these hearings indefinitely until the committee does do it.

Senator LA FOLLETTE. I will certainly protest against hearing one side, by this committee, and not having full hearings on it.

Senator KELLOGG. I do not know of any one that is asking a hearing.

Senator LA FOLLETTE. Well, I am asking a hearing.

Senator TOWNSEND (presiding). Well, I just called the committee after talking to Senator Cummins. I felt it was due myself, and I thought to other members of the committee, that we understand fully what the situation was. Of course, I had no idea of prolonging the hearings, but I certainly want both sides to be heard. But I want the committee to be willing to go ahead with it, if it is a matter that seems of such great importance. I do not propose, of course, as far as I am concerned, that anybody that is an authority on this, who has anything to say, that the committee wants to hear, shall be denied an opportunity, although I would not consent to calling a list of witnesses here for the purpose of delaying action. I would not consent to that. But the other, I think, was very essential.

Senator KELLOGG. Can we not go on?

Senator LA FOLLETTE. The Senate is in session.

Senator TOWNSEND (presiding). The Senate is in session. So far as I am concerned I can go on.

Senator STANLEY. There are a great many members of the committee that want to hear this very important matter, who must be in the Senate

Senator TOWNSEND (presiding). Suppose we meet here to-morrow morning at 10 o'clock, and let us try to arrange it so we can go on and put in as much time as we can. And then we can determine whether we want to proceed with the legislation at all or not. If it turns out that there is no prospect of passing it at this session, we may want to postpone the hearings until a later time. But I am impressed with the importance of the legislation, that we ought to give consideration to it and decide it one way or the other as promptly as possible.

Senator KELLOGG. Well, Mr. Chairman, I have no objection to calling the Government officials who recommended this bill, but I do not think we ought to go into a general hearing which may last weeks on this bill, and I do not know what Mr. McAdoo has got to do with it.

Senator LA FOLLETTE. Well, it may be that the public has no interest in this legislation, but I think it will develop before we get through that the public has great interest in it.

Senator KELLOGG. I think the public has got a great interest in it, Senator, and we have got Government officials here to testify.

Senator LA FOLLETTE. And for Senators who are in favor of this legislation to simply insist on calling witnesses who are promoting it, and denying the opportunity to have those who are opposed to this legislation represented, I think is a little unusual.

Senator KELLOGG. I have not suggested the calling of any witness.

Senator WATSON. Does the Senator know that Mr. McAdoo is opposed to it?

Senator LA FOLLETTE. I don't know about that, but I know that some people are opposed to it who will want to be heard.

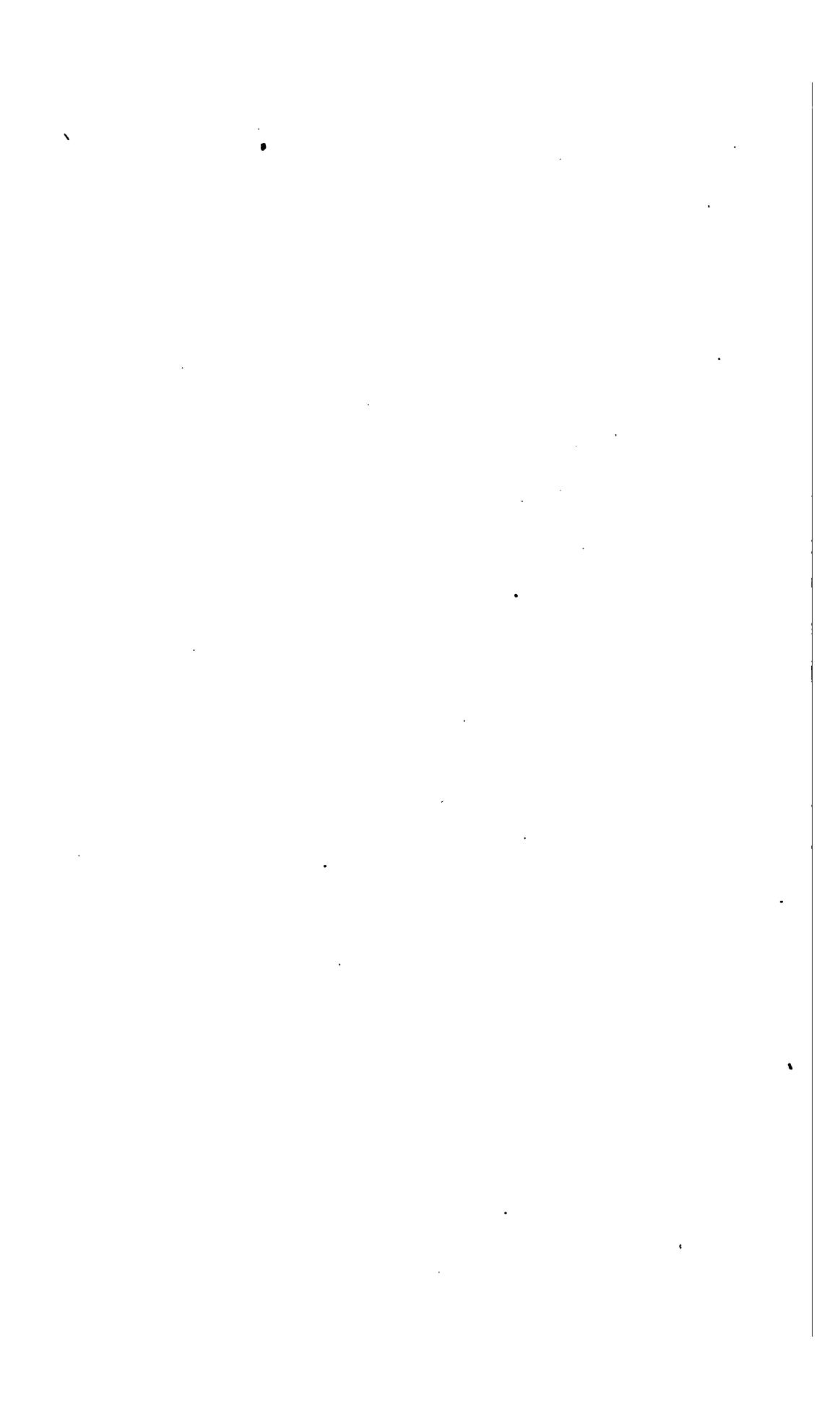
Senator KELLOGG. I have not suggested the calling of any witness at all.

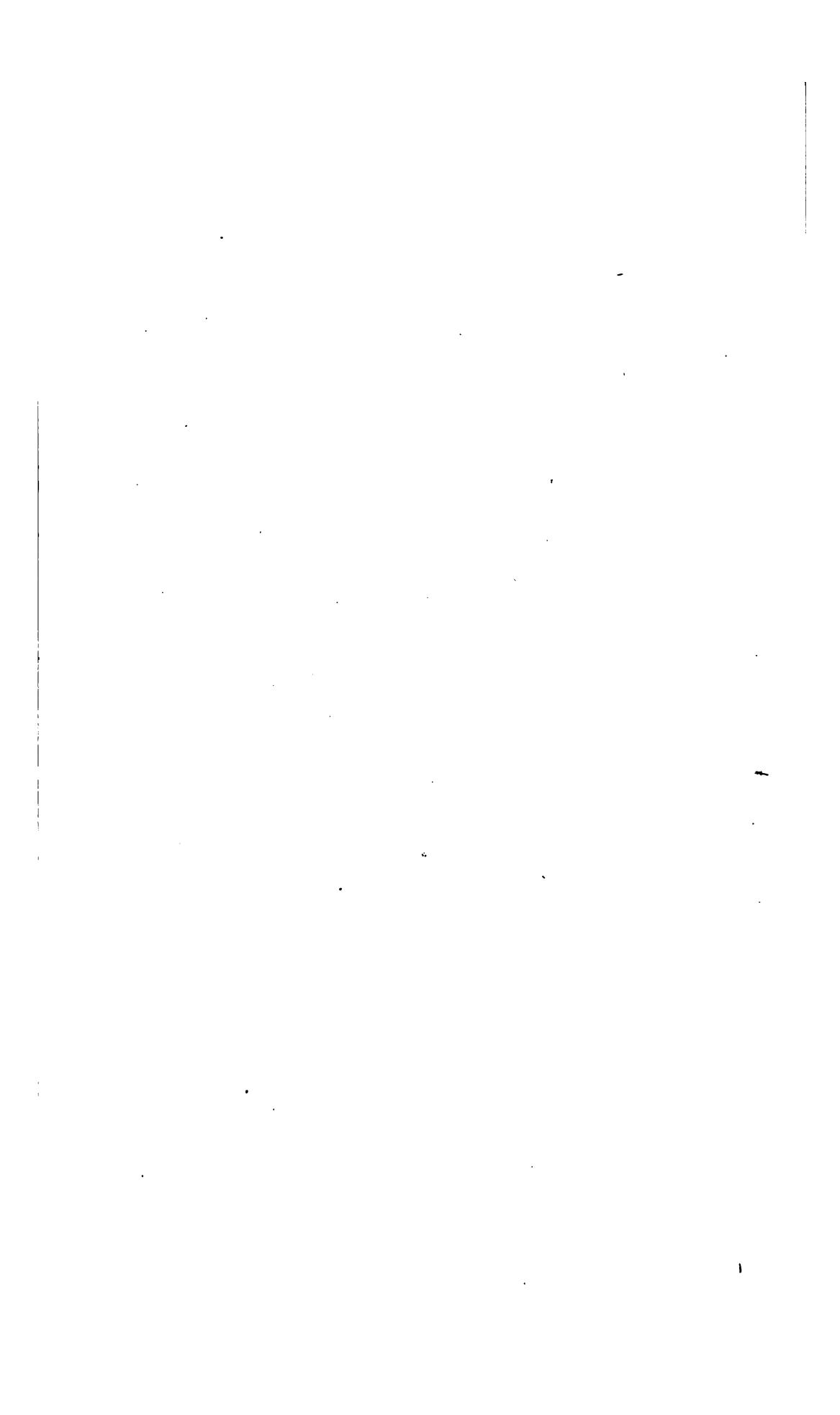
Senator LA FOLLETTE. You are entirely satisfied with the proposed legislation, without calling any witnesses.

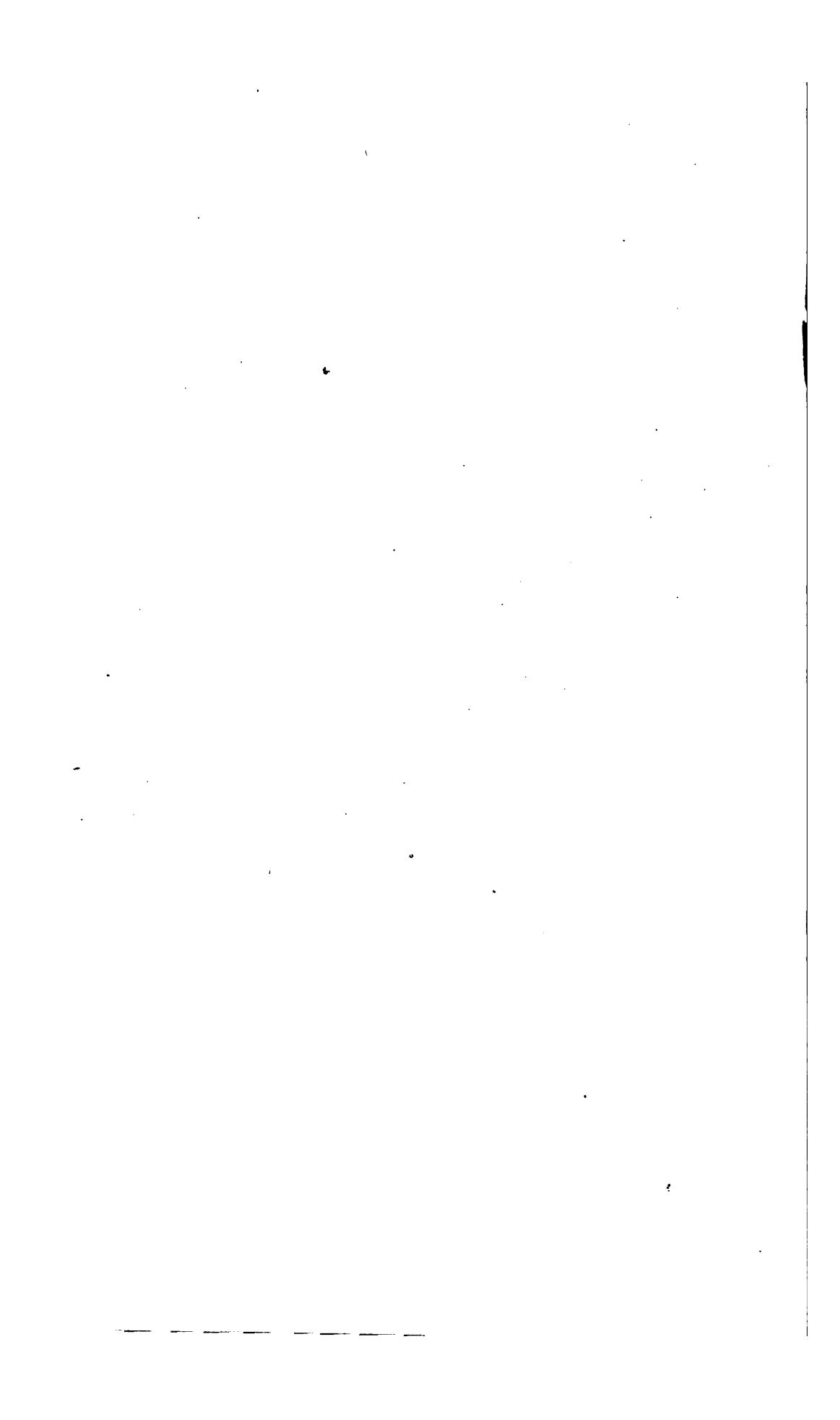
Senator TOWNSEND (presiding). Now, I might have called these gentlemen in a star chamber session and gone over it myself, but I did not feel like doing that. I felt that we ought to go into the matter here. And I have no objection, so far as I am concerned, in calling Mr. McAdoo and Mr. Hines, so far as that is concerned, but I am opposed to calling in the regular stock list of witness who come in here for and against every proposition that comes up. I do not think that we would get anything by that. What we want are the facts so that this committee can act intelligently.

So, without objection, we will appear here tomorrow morning at 10 o'clock to hear Mr. Davis and Mr. Clark.

(Thereupon, at 11 o'clock a. m., an adjournment was taken until 10 o'clock a. m. the following day, Friday, August 12, 1921.)







REFUNDING OF RAILROAD DEBT

HEARINGS
BEFORE THE
COMMITTEE ON INTERSTATE COMMERCE
UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS
FIRST SESSION

ON

S. 2337

A BILL TO AMEND THE TRANSPORTATION ACT, 1920,
AND FOR OTHER PURPOSES

AUGUST 12 AND 16, 1921

PART 2

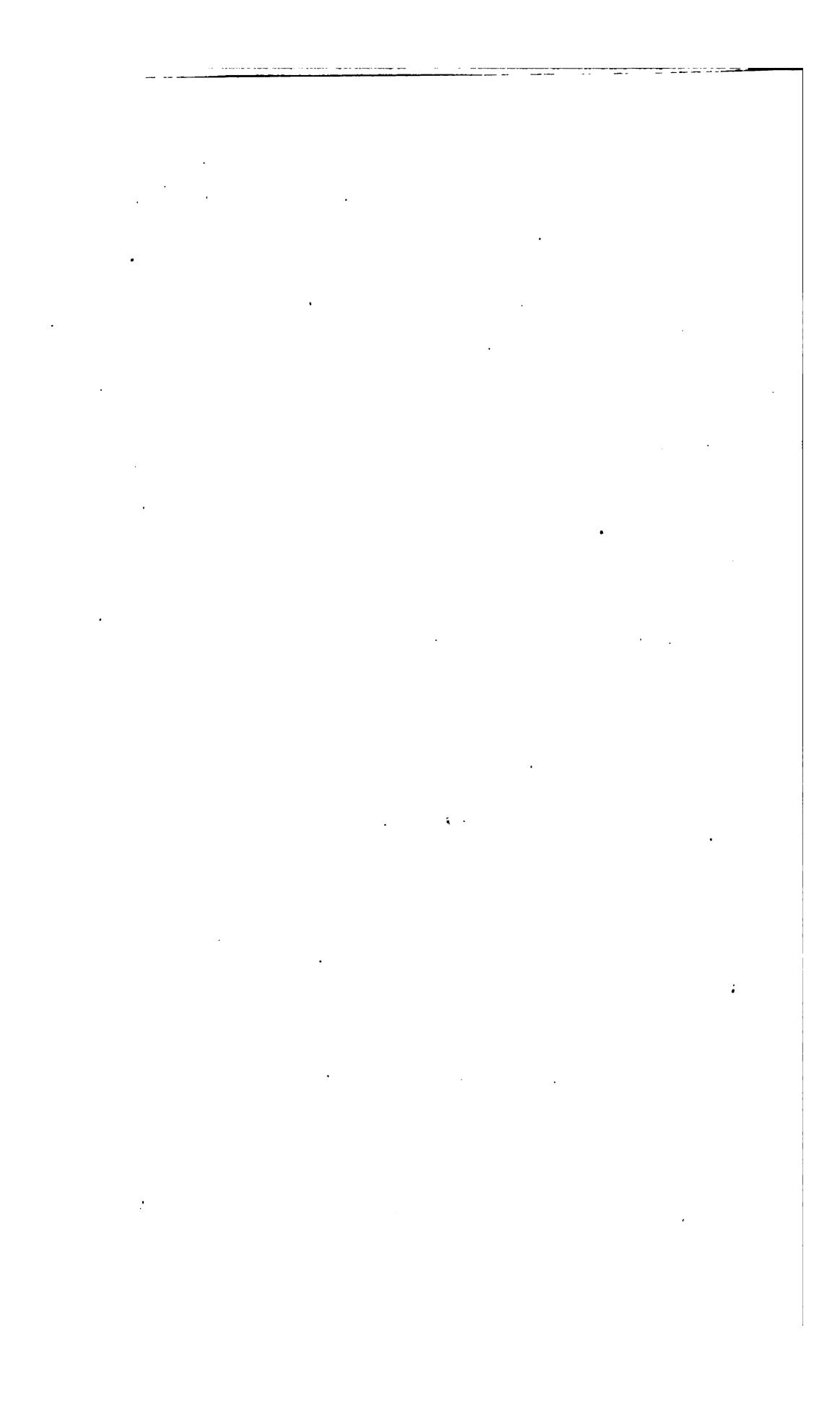
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1921



REFUNDING OF RAILROAD DEBT.

FRIDAY, AUGUST 12, 1921.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met, pursuant to adjournment on yesterday, at 10 o'clock a. m., in room 410, Senate Office Building, Senator Charles E. Townsend presiding.

STATEMENT OF JAMES C. DAVIS, DIRECTOR GENERAL OF RAILROADS—Continued.

Senator TOWNSEND (presiding). Mr. Davis, we will proceed.

Mr. DAVIS. Mr. Chairman and gentlemen, I have no desire to prolong my statement, and can conclude it very shortly. Senator Pomerene asked me to have prepared and submit a statement showing the amount of the capital expenditures for additions and betterments properly chargeable to capital account as to each of the individual roads that was under Federal control, and also the amount, if any, that had been funded, for each road, and the amount of cash that had been collected. I have had prepared a statement of this character, and will hand it to the reporter to be incorporated in the record.

Senator TOWNSEND. It may be placed in the record.

(The statement presented by Mr. Davis is here printed in full, as follows:)

Gross expenditures made by the director general for additions and betterments (excluding allocated equipment) during Federal control, and status thereof as of Apr. 30, 1921.

CLASS I ROADS.

Name of company.	Gross expenditures.	Character of settlement.					Balance due.
		Cash payments.	Long-term notes.	Short-term notes.	Compensation applied.	Bonds.	
Alabama & Vicksburg	\$215,517.60						\$215,517.60
Alabama Great Southern	1,046,392.90						1,046,392.90
Ann Arbor	213,369.44						213,369.44
Arizona Eastern	225,258.51						225,258.51
Atchison, Topeka & Santa Fe	37,707,947.64						37,707,947.64
Atlanta & West Point	635,480.22						635,480.22
Atlanta, Birmingham & Atlantic	638,298.69						638,298.69
Atlanta City	161,463.04						161,463.04
Atlantic Coast Line	5,204,82.56	\$3,794.55					5,200,388.41
Baltimore & Ohio	22,636,673.43	463,658.78	\$8,000,000.00				13,193,014.65
Baltimore & Ohio Chicago Terminal	511,254.77						511,254.77
Baltimore, Chesapeake & Atlantic	13,688.29						13,688.29
Bangor & Aroostook	631,362.16						631,362.16
Beaumont, Sour Lake & Western	46,317.98						46,317.98
Beechwood & Lake Erie	2,101,816.07						2,101,816.07
Boston & Maine	8,888,407.42						888,407.42
Buffalo & Susquehanna	54,594.33						54,594.33
Buffalo, Rochester & Pittsburgh	5,434,984.99						872,53
Carolina Clinchfield & Ohio	506,187.88						506,187.88
Central New England	604,420.91						604,420.91
Central of Georgia	3,387,253.21	381,111.00					1,883,002.82
Central R. of New Jersey	8,485,475.40	19,285.33					8,485,475.40
Central Vermont	307,822.44						288,536.91
Charleston & Western Carolina	111,376.77						111,376.77
Chesapeake & Ohio	10,282,471.17	20,272.50					6,372,198.67
Chicago & Alton	2,589,506.37						2,589,506.37
Chicago & Eastern Illinois	3,420,970.37						1,6,897.82
Chicago & Erie	630,412.94						650,412.94
Chicago & North Western	12,454,591.99	307,070.00					11,647,521.99
Chicago, Burlington & Quincy	21,398,177.09						21,398,177.09
Chicago, Great Western	1,265,547.49						1,265,547.49
Chicago, Indianapolis & Louisville	669,036.13						669,036.13
Chicago, Junction	237,796.12						237,796.12

Chicago, Milwaukee & St. Paul.....	23,231,517.53	20,000,000.00	2,691,156.87
Chicago, Peoria & St. Louis.....	83,611.85		83,611.85
Chicago, Rock Island & Gulf.....	460,300.41		460,300.41
Chicago, Rock Island & Pacific.....	10,685,157.62		10,685,157.62
Chicago, Milwaukee & Omaha.....	1,726,039.81		1,726,039.81
Chicago, Terre Haute & South Western.....	1,214,704.92		1,214,704.92
Cincinnati, Indianapolis & Western.....	4,366,958.75		4,366,958.75
Cincinnati, New Orleans & Texas Pacific.....	352,762.45		352,762.45
Cincinnati, Northern.....	10,997,333.80	6,959,637.22	4,037,686.38
Colorado & Southern.....	1,2,8,083.20		1,248,083.20
Columbus & Cincinnati, Chicago & St. Louis.....	1,4,6,524.29		1,486,524.29
Columbus & Southern.....	2,0,9,164.06		148,164.06
Delaware, Lackawanna & Western.....	5,041,784.15	1,900,000.00	5,041,784.15
Denver & Rio Grande.....	2,777,860.39	2,728,089.28	101,672.11
Denver & Salt Lake.....	101,672.79		105,539.61
Denver & Rock Island.....	103,539.61		160,116.75
Detroit & Toledo Shore Line.....	160,116.75		160,116.75
Duluth & Iron Range.....	471,438.06		471,438.06
Duluth, Missabe & Northern.....	852,194.74	887,198.65	1,984,078.00
Duluth, South Shore & Atlantic.....	1,973,959.29	1,818,209.13	155,750.18
El Paso & Southwestern.....	115,494.76		115,494.76
Erie.....	2,475,093.28		2,475,093.28
Erie, Lake & Eastern.....	2,246,068.38	217,990.27	4,149,031.47
Florida East Coast.....	7,649,031.47		183,610.19
Fort Worth & Denver City.....	1,588,610.19	1,400,000.00	940,967.00
Great Northern.....	940,967.00		940,967.00
Gulf & Ship Island.....	98,767.01		98,767.01
Gulf, Mobile & Northern.....	3,757,965.11		3,767,985.11
Galveston, Harrisburg & San Antonio.....	326,96		326,96
Galveston, Waco Co. Co.....	315,966.96		315,966.96
Georgia, Southern & Florida.....	251,016.70		251,016.70
Grand Rapids & Indiana.....	240,150.88		240,150.88
Grand Trunk Lines in New England.....	989,503.09	2,107.89	987,385.40
Grand Trunk Western.....	1,072,181.73		1,073,181.73
Great Northern.....	17,000,087.59		3,005,000.00
Gulf & Ship Island.....	330,786.61		330,785.61
Gulf, Mobile & Northern.....	1,588,188.06		1,588,188.06
Gulf, Colorado & Santa Fe.....	1,680,916.83		1,680,916.83
Hocking Valley.....	3,087,655.89	490,58.67	2,906,197.22
Houston & Texas Central.....	1,119,217.94		1,119,217.94
Houston East & West Texas.....	32,522.22		32,522.22
Illinois Central.....	24,220,303.21		24,220,303.21
Indiana Harbor Belt.....			
International Great Northern.....	1,057,668.05		1,057,668.05
Kansas City, Mexico & Orient.....	1,387,123.53		1,387,123.53
Kansas City Terminal.....	57,979.35		318,70
Kansas City Southern.....	1,671,370.03		1,671,370.03
Kansas City, St. Louis.....	1,630,779.31		1,630,779.31

1 Credit to corporation.

REFUNDING OF RAILROAD DEBT.

398, 500, 98	398, 500, 98
489, 861, 18	489, 861, 18
19, 530, 868, 58	1, 166, 151, 07
19, 530, 868, 58	38, 022, 00
189, 000, 00	189, 000, 00
445, 357, 33	586, 407, 97
17, 483, 974, 51	1, 924, 921, 04
17, 483, 974, 51	586, 407, 97
3, 429, 668, 70	3, 429, 668, 70
1, 851, 822, 23	1, 851, 822, 23
1, 632, 025, 81	1, 632, 025, 81
86, 967, 27, 32	22, 000, 000, 00
86, 967, 27, 32	24, 311, 000, 00
33, 594, 038, 01	968, 000, 00
33, 594, 038, 01	32, 641, 038, 01
88, 777, 48	98, 777, 48
6, 853, 339, 34	4, 495, 329, 51
12, 952, 352, 32	12, 952, 352, 32
12, 952, 352, 32	12, 952, 352, 32
4, 328, 255, 53	4, 328, 255, 53
91, 068, 34	91, 068, 34
628, 10, 45	500, 000, 00
27, 550, 113, 16	27, 550, 113, 16
164, 159, 96	164, 159, 96
60, 497, 53	60, 497, 53
1, 662, 369, 30	35, 944, 88
844, 978, 83	844, 978, 83
285, 208, 38	285, 208, 38
125, 428, 84	125, 428, 84
451, 627, 86	451, 627, 86
5, 302, 823, 03	350, 000, 00
34, 046, 47	1, 400, 000, 00
1, 948, 574, 58	1, 948, 574, 58
1, 252, 141, 83	1, 220, 116, 08
220, 716, 08	2, 764, 770, 33
19, 786, 125, 37	19, 786, 125, 37
14, 030, 986, 74	14, 030, 986, 74
19, 198, 21	19, 198, 21
682, 778, 00	682, 778, 00
845, 767, 72	845, 767, 72
150, 887, 51	150, 887, 51
1, 040, 916, 74	1, 040, 916, 74
237, 727, 93	237, 727, 93
188, 185, 64	188, 185, 64
5, 432, 757, 50	5, 432, 757, 50
5, 432, 757, 50	1, 671, 200, 93
1, 671, 200, 93	1, 671, 200, 93
61, 834, 59	61, 834, 59
500, 730, 30	500, 730, 30
52, 579, 08	52, 579, 08
54, 417, 95	54, 417, 95
22, 635, 742, 84	22, 635, 742, 84
142, 399, 94	142, 399, 94
681, 149, 28	681, 149, 28
845, 767, 72	845, 767, 72
150, 887, 51	150, 887, 51
1, 040, 916, 74	1, 040, 916, 74
237, 727, 93	237, 727, 93
188, 185, 64	188, 185, 64
5, 432, 757, 50	5, 432, 757, 50
1, 671, 200, 93	1, 671, 200, 93
61, 834, 59	61, 834, 59
500, 730, 30	500, 730, 30
52, 579, 08	52, 579, 08
54, 417, 95	54, 417, 95
22, 635, 742, 84	22, 635, 742, 84
142, 399, 94	142, 399, 94

1 Credit to corporation.

Gross expenditures made by the director general for additions and betterments (excluding allocated equipment) during Federal control, and status thereof as of Apr. 30, 1921—Continued.

CLASS I ROADS—Continued.

Name of company.	Character of settlement.					Final settle- ment.	Balance due.
	Gross expendi- tures.	Cash pay- ments.	Long-term notes.	Short-term notes.	Compensation applied.		
						Bonds.	Equipment trust notes.
Virginian.	\$5,464,578.36						\$5,464,578.36
Wabash.	2,224,240.38						2,224,240.38
Washington Southern.	382,000.88						382,000.88
West Jersey & Seashore.	1,357,046.18						1,357,046.18
Western Maryland.	2,445,286.04						2,445,286.04
Western Pacific.	2,262,497.02						2,262,497.02
Western Ry. of Alabama.	307,971.54						307,971.54
Wheeling & Lake Erie.	1,280,288.50						1,280,288.50
Wichita Falls & Northwestern.	145,471.24						145,471.24
Wichita Valley.	52,952.82						52,952.82
Wiggins Ferry.	760,345.95						760,345.95
Yazoo & Mississippi Valley.	2,449,906.86						2,449,906.86
Total, Class I roads.	\$48,527,914.33	\$52,925,000.00	\$17,358,000.00	29,318,110.46	\$8,000,000.00	\$2,468,470.79	\$3,918,790.05
Total,	741,012,395.17						553,225,983.54

CLASS II ROADS

REFUNDING OF RAILROAD DEBT.

Copper Range.....	278,628.71	278,628.71
Cumberland & Pennsylvania.....	28,946.13	28,946.13
Coal & Coke.....	38,446.58	38,446.58
Danville & Western.....	7,114.01	7,114.01
Detroit, Bay City & Western.....	7,084.90	7,084.90
Durham & Southern.....	87,926.27	87,926.27
Evansville & Indianapolis.....	15,425.23	15,425.23
Escanaba & Lake Superior.....	15,425.23	15,425.23
Farmers' Grain & Shipping.....	628.57	628.57
Galveston, Houston & Henderson.....	150,662.70	150,662.70
Georgia & Florida.....	17,195.46	17,195.46
Georgia, Florida & Alabama.....	20,655.24	20,655.24
Gettysburg & Harrisburg.....	18,905.22	18,905.22
Gilmore & Pittsburgh.....	2,308.26	2,308.26
Grand Canyon.....	38,106.00	38,106.00
Green Bay & Western.....	133,280.30	133,280.30
Greenwich & Johnsonville.....	6,449.53	6,449.53
Gulf, Texas & Western.....	1,612.95	1,612.95
Gainesville Midland.....	638.14	638.14
Hartman & Northern.....	4,420.29	4,420.29
Hawkinsville & Florida Southern.....	2,282.35	2,282.35
Huntington & Erie - Top Mountain R. R. & Coal Co.....	68,088.17	68,088.17
Houston & Brazos Valley.....	18,156.21	18,156.21
Houston & Shreveport.....	15,240.96	15,240.96
Kanawha & West Virginia.....	26,356.13	26,356.13
Kansas City, Clinton & Springfield.....	2,513.62	2,513.62
Lake Charles & Northern.....	3,915.61	3,915.61
Lake Erie & Pittsburgh.....	28,565.24	28,565.24
Lake Superior & Ishpeming.....	10,600.45	10,600.45
Litchfield & Madison.....	97,365.40	97,365.40
Lorain, Ashtabula & Southern.....	39,918.75	39,918.75
Louisiana Southern.....	248.11	248.11
Macon, Dublin & Savannah.....	36,528.40	36,528.40
ManistIQUE & Lake Superior.....	28,749.33	28,750.33
Memphis, Dallas & Gulf.....	59,601.56	59,601.56
Missouri, Oklahoma & Gulf of Texas.....	4,807.83	4,807.83
Montpelier & Wells River.....	3,352.94	3,352.94
Morgantown & Kingwood.....	29,211.54	29,211.54
Murphys, Marquette & Southeastern.....	2,715.04	2,715.04
New Jersey & New York.....	15,197.9	15,197.93
New York & Long Branch.....	57,371.25	57,371.25
Northwest Pennsylvania.....	7,161.0	7,161.01
Northern Alabama.....	568,410.89	556,410.89
New Iberia & Northern.....	3,467.20	3,467.20
Ohio River & Western.....	27,084.75	27,084.75
Orange & Northwestern.....	21,240.70	21,240.70
Oregon Trunk.....	275.21	275.21
Pacific Coast.....	15,829.46	15,829.46
Paris & Great Northern.....	1,133.98	1,133.98
Perkiomen.....	18,646.72	18,646.72

Gross expenditures made by the director general for additions and betterments (excluding allocated equipment) during Federal control, and status thereof as of Apr. 30, 1921—Continued.

CLASS II ROADS—Continued.

CLASS III ROADS.

REFUNDING OF RAILROAD DEBT.

67

Black Mountain.....	9,351.94	9,351.94
Bath & Hammondport.....	657.05	657.05
Bennettsville & Cherry	1,885.82	1,885.82
Carolina & Tennessee Southern	37.87	37.87
Cherry Tree & Dixonville.....	28,791.21	\$1,130.03
Chesterfield & Lancaster.....	801.90	801.90
Cincinnati, Burnside & Cumberland River.....	811.24	841.24
Charlotte, Monroe & Columbia.....	291.70	291.70
Denison & Pacific Suburban.....	4,494.46	4,494.46
Deep Creek.....	1,494.70	1,494.70
Eastern Texas.....	941.11	941.11
East & West Coast.....	417.52	417.52
Fairchild & Wortheastern.....	609.49	609.49
Hartwell.....	327.42	327.42
Hick Point, Randieman, Ashboro & Southern.....	8,890.53	8,890.53
Iberia & Vermillion.....	809.92	809.92
Kankakee & St. Joseph.....	19,379.08	19,379.08
Kansas Southwestern.....	9,355.11	9,355.11
Kinston Carolina.....	5,034.80	5,054.80
Lackawanna & Monongahela.....	499.07	499.07
Lawrenceville Branch.....	389.46	389.46
Louisville & Wadley.....	2,631.31	2,651.31
Long Fork.....	642,035.38	642,035.38
Meridian & Memphis.....	121.67	121.67
Middletown & Hummelsburg.....	2,142.34	2,142.34
Narragansett Pier.....	835.17	835.17
Philadelphia & Chester Valley.....	19,751.02	19,751.02
Pickering Valley.....	6,213.40	6,213.40
Potomac Valley.....	914.65	914.65
Raleigh & Charleston.....	444.37	444.37
Rapid City, Black Hill & Western.....	599.07	598.07
Rupert & Bloomsburg.....	624.62	624.62
Salina Northern.....	4,199.25	4,199.25
Schuylkill Valley.....	1,542.64	1,542.64
Standard & Hernando.....	806.49	806.49
Stony Creek.....	3,251.17	3,251.17
Susquehanna & New York.....	6,121.51	6,121.51
Pennsylvania Central.....	11.88	11.88
Tampa & Gulf Coast.....	18,045.26	18,045.26
Tammany, Hazelton & Northern.....	550.46	550.46
Washington & Audemere.....	1,575.37	1,575.37
Wauipaca-Green Bay.....	2,457.09	2,457.09
Williams Valley.....	2,252.97	2,252.97
Wood River Branch.....	125.91	125.91
York Harbor & Beach.....	6,982.45	6,982.45
Total class III roads.....	822,597.75	1,130.03
		4,941.98
		816,525.74

¹ Credit to corporation.

Gross expenditures made by the director general for additions and betterments (excluding allocated equipment) during Federal control, and status thereof as of Apr. 30, 1921—Continued.

SWITCHING AND TERMINAL COMPANIES.

Name of company.	Gross expenditures.	Character of settlement.					Balance due.
		Cash pay- ments.	Long-term notes.	Short-term notes.	Compensation applied.	Bonds.	
Akron & Barberville Bell.	\$36,602.33						\$36,602.33
Albany Passenger Terminal.	35.00						35.00
Alton & Southern Terminal.	278,587.81						278,587.81
Arkansas & Memphis R. R. Bridge & Terminal.	21,283.96						21,283.96
Ashland Coal & Iron.	2,512.98						2,512.98
Atchison Union Depot.	194.00						194.00
Atlanta Terminal.	222,018.37						222,018.37
Augusta & Summerville.	121.90						121.90
Augusta Union Station.	3,350.98						3,350.98
Barre & Chelsea.	4,773.20						4,773.20
Beaumont Wharf & Terminal.	3,980.94						3,980.94
Birmingham Belt.	4,408.53						4,408.53
Birmingham Terminal.	2,427.65						2,427.65
Boston Terminal.	12,859.41						12,859.41
Brooklyn Eastern District Terminal.	59,927.13						59,927.13
Buffalo Creek.	8,016.27						8,016.27
Calumet Western.	298.07						298.07
Central Union Depot of Cincinnati.	1,248.56						1,248.56
Charleston Terminal.	2,509.75						2,509.75
Charleston Union Station.	1,319.09						1,319.09
Chattanooga Station.	388.50						388.50
Chicago Heights Terminal Transfer.	9,059.65						9,059.65
Chicago River & Indiana.	6,887.38						6,887.38
Columbia Union Station.	6,369.55						6,369.55
Dayton Union.	3,328.84						3,328.84
Dallas Terminal Ry. & Union Depot.	7,174.14						7,174.14
Danver Union Terminal.	16,913.40						16,913.40
Des Moines Union.	4,488.21						4,488.21
Des Moines Terminal.	21,593.62						21,593.62
Detroit Terminal.	638.07						638.07
Duluth Union Depot & Transfer.	1,341.32						1,341.32
Dunklach & Dubuque Bridge.	1,290.12						1,290.12
Durham Union Station.	257.59						257.59
	45.00						45.00

REFUNDING OF RAILROAD DEBT.

69

El Paso Union Passenger Depot	243.48	243.48
Fort Street Union Depot	4,491.74	4,451.71
Fort Worth Belt	108.66	108.66
Fort Worth Union Passenger Station	756.92	756.92
Goldshire Union Station	221.74	221.74
Hamilton Belt	537.06	537.06
Hannibal Union Depot	77.06	77.06
Houston Belt & Terminal	23,866.24	23,866.24
Indianapolis Union	2,482,692.08	46,888.04
Iowa Transfer	286.19	286.19
Illinois Terminal	72,682.35	72,682.35
Jenlin Union Depot	16,944.93	16,894.93
Kansas City, Shreveport & Gulf Terminal	3,379.12	3,379.12
Kentucky & Indiana Terminal	2,926.80	2,926.80
Keokuk Union Depot	379.383.62	379.383.62
Lake Erie & Eastern	494.65	494.65
Lake Superior Terminal & Transfer of Wisconsin	1,242,326.20	1,242,326.20
Leavenworth Terminal Ry. & Bridge	3,296.70	3,296.70
Louisville & Jeffersonville Bridge	27,226.98	27,226.98
Louisville Bridge & Terminal	8,544.36	8,544.36
Macon Terminal	1,951,007.83	1,321,007.83
Manufacturers' R. R.	2,183.16	2,183.16
Memphis Union Station	6,797.06	6,797.06
Meridian Terminal	27,687.36	27,687.36
Minneapolis Eastern	415.00	415.00
Minnesota Transfer	731.94	731.94
Missouri & Illinois Bridge & Belt	14,046.59	14,046.59
Muncie Belt	861.74	861.74
Missouri Valley & Blair R. R. & Bridge	187.38	187.38
Naicher & Sonthorn	37,928.80	37,928.80
New Orleans Terminal	19,701.02	19,701.02
New York Connecting Railroad	71,456.53	71,456.53
Norfolk & Portsmouth Belt Line	17,230.77	9,479.05
Norfolk Terminal	243,256.12	243,256.12
Northern Pacific Terminal of Oregon	2,480.50	2,480.50
North Charleston Terminal	19,313.96	19,313.96
Orgeon Union Railroad and Depot	12,929.59	12,929.59
Pacific & Illinois	22,754.21	23,764.21
Peoria Railway Terminal	83,510.04	83,910.04
Philadelphia Belt Line	2,629.35	2,629.35
Port Huron Southern	2,886.55	2,886.55
Pueblo Union Depot	327.60	327.60
Portland Terminal	329,970.61	329,970.61
Port Arthur Canal & Dock	10,646.71	10,646.71
Richmond Terminal	12,061.35	12,061.35
Rock Island Frisco Terminal	7,360.07	14,099.16
St. Johns River Terminal	7,160.24	7,160.24
St. Joseph Terminal	1,919.54	1,919.54

REFUNDING OF RAILROAD DEBT.

Gross expenditures made by the director general for additions and betterments (excluding allocated equipment) during Federal control, and status thereof as of Apr. 30, 1921—Continued.

SWITCHING AND TERMINAL COMPANIES—Continued.

Name of company.	Character of settlement.					Balance due.			
	Gross expenditures.	Cash payments.	Long-term notes.	Short-term notes.	Compensation applied.	Bonds.	Equipment trust notes.	Final settlement.	
St. Joseph Union Depot.....	\$86,711							\$866,711	
St. Louis National Stock Yards.....	11,841.92							1,505.77	
St. Paul Bridge & Terminal.....	5,938.78							5,938.78	
St. Paul Union Depot.....	83,280.87							83,280.87	
Sainte Marie Union Depot.....	1,539.87							1,539.87	
Savannah Union Station.....	134.31							134.31	
Sioux City Terminal.....	167,334.56							167,334.56	
Sioux City Bridge.....	24.24							24.24	
Southern Pacific Terminal.....	10,774.76							10,774.76	
Tampa Union Station.....	50.00							50.00	
Toledo Terminal.....	148,799.32							148,799.32	
Trans-Mississippi Terminal.....	261,083.37							261,083.37	
Troy Union.....	238.64							238.64	
Union Depot (Columbus, Ohio).....	10,349.56							10,349.56	
Union Freight (Columbus, Ohio).....	53,597.06							53,597.06	
Union Railroad (Memphis, Tenn.).....	20,704.73							20,704.73	
Union Terminal (Dallas, Tex.).....	3,557.11							3,557.11	
Van Buren Bridge.....	132.12							132.12	
Wheeling Terminal.....	8,698.18							8,698.18	
Washington Terminal.....	21,220.44							21,220.44	
West Texas Belt.....	141.95							141.95	
Wilkes-Barre Connecting.....	8,989.73							8,989.73	
Winona Bridge.....	620.96							620.96	
Total switching and terminal companies.....	9,740,105.81	3,703,666.27						25,506.48	6,010,933.06

STEAMSHIP COMPANIES.

Baltimore Steam Packet Line.....	\$2,571.14							\$2,571.14	
Champion Transportation Line.....	544.93							544.93	
Chesapeake Steamship Line.....	1,108.90							1,108.90	
Direct Navigation Line.....	7,540.48							7,540.48	

Hartford & New York Transportation Line.....	198,00
Lake George Steamboat Line.....	605,07
Mackinac Transportation Line.....	1,301,33
Merchants & Miners Steamship Line.....	3,092,07
New Bedford, Martha's Vineyard & Nantucket Steamboat Line.....	3,563,70
New England Steamship Line.....	25,837,26
Ocean Steamship Line of Savannah.....	74,098,22
Old Dominion Steamship Line.....	20,193,30
Philadelphia-Camden Ferry.....	65,511,16
San Francisco & Portland Steamship Line.....	1,200,00
Southern Steamship Line.....	210,74
Southern Pacific Steamship Line.....	61,680,83
Delaware River Ferry.....	1,715,98
Total steamship companies.....	276,971,19

ELECTRIC RAILWAYS.

Coal Belt & Electric.....	\$5,900,61
Fort Dodge, Des Moines & Southern.....	39,645,14
Hudson & Manhattan.....	456,742,73
Oregon Electric.....	135,401,81
Piedmont & Northern.....	95,148,53
Tidewater Southern.....	84,797,11
Waterloo, Cedar Falls & Northern.....	52,282,09
Total electric railways.....	920,513,02

CAR COMPANIES.

American Refrigerator Transit.....	\$8,215,90
Pacific Fruit Express.....	2,622,491,24
Glenn Pool Tank Line.....	4,60
Chicago, New York & Boston Refrigerator Line.....	23,192,16
Total car companies.....	2,653,903,90

¹ Credit to corporation.

REFUNDING OF RAILROAD DEBT.

Gross expenditures made by the director general for additions and betterments (excluding allocated equipment) during Federal control, and status thereof as of Apr. 30, 1921—Continued.

SLEEPING-CAR COMPANIES.

Name of company.	Character of settlement.								
	Gross expenditures.	Cash payments.	Long-term notes.	Short-term notes.	Compensation applied.	Bonds.	Equipment-trust notes.	Final settlement.	Balance due.
Total Pullman Car Lines	\$3,865,054.27	.....	.....	.....	.....	.....	.....	.....	\$3,865,054.27

WATERWORKS.

Green River Waterworks	\$81,524.03	.....	.....	.....	.....	.....	.....	.....	\$81,524.03
Union Pacific Waterworks	60,248.93	.....	.....	.....	.....	.....	.....	.....	60,248.93
Total waterworks	141,772.96	.....	.....	.....	.....	.....	.....	.....	141,772.96

RECAPITULATION.

Class I roads	\$741,012,385.17	\$48,527,914.33	\$52,925,000.00	\$17,359,000.00	\$29,318,110.46	\$8,000,000.00	\$2,468,470.79	\$29,187,906.05	\$153,225,983.54
Class II roads	3,532,735.91	.....	.....	.....	.....	.....	.....	242,137.12	3,508.79
Class III roads	822,597.75	1,130.03	.....	.....	.....	.....	.....	4,941.98	816,525.74
Switching and terminal companies	9,740,105.81	3,703,666.27	.....	.....	.....	.....	.....	25,506.48	6,010,933.06
Steamship lines	276,971.19	.....	.....	.....	.....	.....	.....	1,168.90	275,862.29
Electric railways	920,518.62	.....	.....	.....	.....	.....	.....	86,645.14	920,572.88
Car companies	2,653,963.90	.....	.....	.....	.....	.....	.....	2,653,963.90	.....
Sleeping-car companies	3,865,054.27	.....	.....	.....	.....	.....	.....	3,865,054.27	.....
Waterworks	141,772.96	.....	.....	.....	.....	.....	.....	.....	141,772.96
Grand total	762,986,054.98	52,232,710.63	\$2,925,000.00	17,359,000.00	\$29,318,110.46	\$8,000,000.00	\$2,468,470.79	\$29,551,245.67	571,131,517.43

Mr. DAVIS. I had intended to explain to the committee to some extent the progress that is being made in liquidation, not because it was germane to this inquiry, but because I thought perhaps it was information that the committee might desire to have. In view of the fact that the statement I made to Chairman Good of the Appropriations Committee will be printed in full as a part of my statement, that will obviate any statement of that character at this time. The statement made to Mr. Good was as of May 1, and the only difference in the statement that would be made to-day would be that we have increased the amount of the settlements and decreased the amount of available cash by the amount that we have paid out.

I wish to give a summary of the objects of this bill and the results it is hoped to obtain by its passage.

The President, in the general liquidation of claims growing out of the period of Federal control of railroads, under section 207 of the transportation act of 1920, has discretion "so far as deemed wise," upon the carriers giving "in the discretion of the President, such security, in such form and upon such terms, as he may prescribe," to fund any or all indebtedness of the carriers to the administration on account of additions and betterments properly chargeable to capital account, made during the period of Federal control.

In the course of the liquidation of the large amount of claims growing out of Federal control, it has been necessary to take from the carriers certain definite long-time obligations. These obligations have been taken in negotiable form, ordinarily with security which would make them desirable purchases by the investing public. There is in existing acts of Congress some general and specific authority on the part of the President to sell these obligations and use the proceeds in the general plan of liquidation.

In an act of Congress approved November 19, 1919, entitled "An act to provide for the reimbursement of the United States for motive power, cars, and other equipment ordered for railroads and systems of transportation under Federal control, and for other purposes," there is express power on the part of the President to sell what are known as the equipment trust obligations. This power is found in the following language in said act [reading]:

"In addition to the powers herein and heretofore conferred, the President is further authorized to dispose, in the manner and for the consideration aforesaid, of motive power, cars, and other equipment, if any, provided by him in accordance with any other provisions of said section, and of any obligations of carriers that may be received in reimbursement of the cost thereof."

This specifically covers what are known as the equipment trust certificates.

In addition to this specific power, section 202 of the transportation act of 1920 reappropriates unexpended appropriations theretofore made to the Railroad Administration, and contains the following general language: "And all moneys derived from the operation of the carriers or otherwise arising out of Federal control, and all moneys that have been or may be received in payment of the indebtedness of any carrier to the United States, arising out of Federal control, shall be and remain available until expended for the aforesaid purposes."

The "aforesaid purposes," as defined in the act, are as follows [reading].

"The President shall, as soon as practicable after the termination of Federal control, adjust, settle, liquidate, and wind up all matters, including compensation, and all questions and disputes of whatsoever nature, arising out of or incident to Federal control."

In addition to the powers contained in the transportation act of 1920, sections 6 and 7 of the Federal control act give general powers to purchase and sell railroad securities defined and described in said section.

It may very well be argued, therefore, that, without additional legislation, the President has the right to sell the various obligations taken in the course of the general liquidation growing out of Federal control, but, in view of the fact that the language of section 202 does not give express authority to sell, it was deemed wise, in the event that the War Finance Corporation was given the power to purchase, to include the specific power to sell, and that is the reason why the specific power to sell is incorporated in the present bill. The power of the War Finance Corporation to purchase is a power which it does not have under existing laws, and is essential to the consummation of this plan.

Paragraph (i) of section 1 of the proposed bill grants power to the President to readjust final settlements heretofore made to the extent only that those corporations which have heretofore made fair and just final settlements with the administration, conceding in these settlements the construction which the Administration has placed upon the standard contract, and the liabilities growing out of same, may receive the same con-

sideration that corporations that have not settled may receive in the matter of funding. In the settlements heretofore made, any general request for funding has been denied, for the reason that there were not funds sufficient to carry out a plan of this character.

The purpose of giving the War Finance Corporation the power to purchase is to enable this corporation to temporarily supply the Railroad Administration with funds necessary to make advances to the railroad corporations of money which the Government owes for compensation and other purposes growing out of Federal control, and a reasonable funding of additions and betterments. This plan would obviate any necessity for a direct appropriation.

In view of the fact that these securities taken by the Railroad Administration are in form, and supported by security, which ordinarily makes them desirable investments, it is believed that the War Finance Corporation could within a very limited time dispose of these long-time obligations of the railroads to the investing public, and thus relieve the United States Treasury from permanently carrying this long-time paper.

The desirability of passing this legislation may be expressed in the thought that it will give the railroad corporations ready money for the purpose of paying for material and supplies and rehabilitating equipment very essential to efficient operation. Putting this money in circulation would tend to assist the return to normal conditions of labor, and the market for material and supplies necessarily used in the operation and maintenance of railroads, and would not only tide over the railroad corporations in a time of extreme depression but would be of substantial assistance toward return to normal conditions of the general commercial situation of the country.

As has heretofore been explained, this is not a new loan to the railroads but simply an extension of time in which they can pay for expenditures made in the matter of capital investment, and one which in normal times would be represented by the sale of bonds on capital account, and is an expenditure which in the ordinary operation of railroads is not usually contemplated in the rates which they are permitted to charge the public, nor was or should have been considered in the compensation which the Government allowed the railroads for the use of their property during the period of Federal control.

That would conclude the statement, so far as I care to make it.

Senator KELLOGG. While you are on that subject, Mr. Davis, there is not any doubt whatever of the power of the President to sell the equipment trust certificates received under that act of Congress, is there?

Mr. DAVIS. No.

Senator KELLOGG. It is specific.

Mr. DAVIS. Yes; I would say that is specific authority, and there is no doubt about that, sir.

Senator KELLOGG. It never has been repealed or questioned?

Mr. DAVIS. No, never been questioned.

Senator KELLOGG. There is no doubt whatever about the power of the President to sell the securities purchased by the revolving fund provided for in sections 6 and 7 of the original act to provide for Federal control?

Mr. DAVIS. I would say there is no doubt about that, sir.

Senator KELLOGG. The only possible question there can be is as to any securities.

Senator WATSON. What is the amount of those last securities you mentioned?

Mr. DAVIS. I could not separate those amounts, but we hold some.

Senator WATSON. You hold some?

Mr. DAVIS. Quite a substantial amount they aggregate; yes.

Senator KELLOGG. Those loans are still in force?

Mr. DAVIS. Yes, sir; I understand that they are still in force.

Senator KELLOGG. The subsequent appropriations which were added to that revolving fund would, if any securities were bought with those appropriations, be in exactly the same position.

Mr. DAVIS. Well, as I said yesterday, I am inclined to that opinion, sir; but I have not had the time to consider that.

Senator KELLOGG. You have not run down those appropriations to see?

Mr. DAVIS. No, sir.

Senator KELLOGG. Well, there is no question whatever about the power of the President to sell a large amount of these securities. The only question is that the War Finance Corporation itself can not buy them.

Mr. DAVIS. I would say yes to that, Senator; and the purpose of this amendment, so far as the power to sell, was, as I suggest, by reason of any doubt that might arise as to the construction of section 202, which in terms does not grant the specific right to sell, although it uses general language which would probably support that power.

Senator KELLOGG. That would not affect the equipment trust?

Mr. DAVIS. Not at all, sir; it does not affect the equipment trust at all.

Senator KELLOGG. Yes.

Senator SMITH. Mr. Davis, I wanted to ask you this question. You said a moment ago that you wanted this power to enable the War Finance Corporation to take these securities, and thereby furnish you, or the Government through you, with ready cash. That is contemplated because of the fact that the War Finance Corporation has on hand to its credit now, or on hand, something like \$400,000,000 of unused funds, has it not?

Mr. DAVIS. Yes, sir; and in addition, as I understand it, the War Finance Corporation is equipped to sell; it has a force that knows how to intelligently dispose of these securities in the market. But the primary reason is that the War Finance Corporation is supposed to have funds available for this purpose.

Senator SMITH. Yes; they reported that they had about \$400,000,000, in round numbers, and therefore they could take these bonds and cash them immediately. Now, if it were not for the fact that they have this cash on hand that might be used for the purpose contemplated in this act, would it expedite things, do you think, for them to become the agent to sell rather than the Government through you offering these for sale in the open market? In other words, if it were not for the fact that they have got the \$400,000,000 in cash on hand now, would it be of any material benefit, or would it expedite matters any to pass this legislation?

Mr. DAVIS. Why, unless the War Finance Corporation could take these in reasonable sums, as they are needed, immediately, I doubt whether there would be any purpose in passing this legislation.

Senator WATSON. That is to say, could not the War Finance Corporation probably dispose of these securities to better advantage, and probably at a lower rate of interest, than the railroads themselves could do?

Mr. DAVIS. I think so, sir; probably.

Senator SMITH. But that would be speculative, as to whether they could or could not?

Senator WATSON. Certainly.

Senator SMITH. The object of this is to avail itself of the ready cash that the War Finance Corporation has on hand now, that they could immediately meet this condition?

Mr. DAVIS. Yes. I would like to say, Senator, that I am very reluctant to express an opinion as to what the War Finance Corporation can or can not do, because I have no authority with them, and I think that the representative of the War Finance Corporation should speak for himself in that matter. I would not care to.

Senator SMITH. The reason I am asking this question is apparent to us all who are familiar with certain legislation that we have passed, and the purposes for which the War Finance Corporation was rehabilitated. The main object of that, of course, was, and the reason why Congress was enthusiastic and determined in having the War Finance Corporation rehabilitated, was to aid in remedying the distressing condition of the markets, both domestic and foreign, and provide them with the funds to enable them to do this efficiently.

Now, if the conditions of the railroads are such that they will absorb almost at once the paid in and ready capital of the War Finance Corporation, the question arises: How will it meet the conditions for which it was specifically rehabilitated, namely, the aiding of domestic and foreign trade, unless it is enabled to go out and sell its bonds that it is given the right to do, that is under the amended form of the War Finance Corporation, as it is now pending they can sell four times their capital stock, which will give them a credit of \$2,000,000,000. Now, it might, under the authority we give them here, seriously impair their ability to meet the specific obligations for which they were rehabilitated, and it seems to me that unless it can be shown that the War Finance Corporation can take these bonds that you hold as against the railroads, and dispose of them more expeditiously, and more advantageously than you could, it rather raises a doubt in the minds of those who have passed this previous legislation as to what will be the effect upon the efficiency of the War Finance Corporation to meet the paramount object that we had in view in rehabilitating it.

Mr. DAVIS. Well, Senator, I say, with a reluctance to speak as to the activities of the War Finance Corporation, I would suggest that first the board of directors of the War Finance Corporation will not be compelled to take any more of the railroad securities than will be entirely consistent with their carrying out the other purposes of the act.

Second, I have little doubt but what some of these securities can be readily sold by persons who are familiar with making sales of this character. I am not familiar with that myself, and I have no organization in the liquidation organization of the Railroad Administration to sell.

Third, the right on the part of the War Finance Corporation to issue its own bonds, which in effect are the obligation of the United States; there would be no question

but what there could be a temporary issue of those bonds, which would tide over any emergency, if such arose.

Senator SMITH. Now, I am not familiar with the facts. I do not know whether the War Finance Corporation bonds would sell more readily in the market than the railroad securities, unless it were for the fact that the War Finance Corporation is a Government corporation and might be able to offer a higher rate of interest and better terms to the purchaser. I notice that the figures submitted here to our committee have revolved around about the amount that the War Finance Corporation has on hand in cash. I believe you submitted some figures here yesterday to show that when the debits and credits have been about balanced it would amount to something like \$300,000,000 that we perhaps owe the railroads for the general current expenses, and were that liquidated by the War Finance Corporation taking over the securities of the roads from you it would just about wipe out the capital stock now paid in by the War Finance Corporation, and force them, if they had to have any capital for doing the things for which they were specifically rehabilitated, to sell bonds to get this money. Now, it seems to me that there should be some kind of limitation upon the amount of capital stock that they might use for this purpose, or some expression on the part of Congress as to the sale of bonds for the purpose of getting this money. Because I state frankly here, as a member of this committee, that I think that the trade condition of this country is of as vital importance, or is of more vital importance to the American people at this time than any other feature that could come, and that as the representatives here of the people we ought to see that that is remedied, if possible, to the exclusion of everything else, until we get something like a return to tolerable conditions in the markets.

Mr. DAVIS. I think, Senator, that that is the controlling and underlying purpose of this proposed legislation, and that is to help, not so particularly to help the railroads as it is to aid in general the return of normal trade conditions, such as you suggest.

Senator SMITH. Well, I can see how, if there was a full return to the tonnage and to the general commerce and the employment of labor it would help, but this other question is larger, and I believe is first. I think this would follow that. I think your railroad rehabilitation would largely follow revival of the markets, rather than be a revival of the markets, because we recognize, everyone recognizes, that one of the very first things that has got to be done in the readjustment of this railroad question is the reduction of freight rates. You would practically have to carry the price of the commodities in market back to the war peak before the people could profitably ship their stuff. There are different kinds of freight to-day that could find a profitable market at the prices obtaining now were it not for the subtraction of freight rates which absorb their profits. Now that is notorious. It is known to us all. And unless this contemplated legislation would result in an immediate reduction of rates, I do not know what will be the effect.

Senator KELLOGG. Well, how is the Government going to pay its debts?

Senator SMITH. Oh, Senator Kellogg, I am not going to stand in the way of the Government paying its debts. Now, if it calls for an appropriation I am going to vote for an appropriation for the Government to pay them.

Senator KELLOGG. Well, why not sell these securities?

Senator SMITH. Well, I am not objecting at all to selling these securities.

Senator KELLOGG. Well, that is all we are driving at.

Senator SMITH. What I am trying to do is to guard, if possible, the machinery that we have set up to help other business, and not absorb all of its capital for one purpose.

Senator KELLOGG. Well, I suggest if there are any further questions to ask Mr. Davis, to go ahead and ask them.

Senator TOWNSEND (presiding). Mr. Davis, I want to ask you this: Suppose the committee should conclude to permit this power to be exerted, so far as existing obligations are concerned, would that be of any relief?

Mr. DAVIS. Yes, sir, that would be a very substantial relief. It would permit the distribution of the amount of money that we could realize from existing securities.

Senator TOWNSEND (presiding). That would solve some of the questions that have been asked here in reference to the possibility of the Government's assuming an indefinite obligation to dispose of conditions in the future. Now another question. Do you make any settlements—I think you have answered this but I want it to appear again—do you make any settlement with the railroads that are not final settlements?

Mr. DAVIS. We have made no settlement with any railroad that is not an absolute and complete and final settlement and an entire acquittance, with this exception. In one or two roads the item of material and supplies has been a question that required a large amount of checking. When the Government took over the railroads on the 31st of December, 1917, there was about \$600,000,000 worth of materials and supplies scattered all over the various systems. No definite inventory was taken at that time,

and one of the most irritating delays in making final settlements is the difficulty to determine just what materials and supplies were taken over, and just what materials and supplies were returned.

Out of nearly 100 settlements, in two settlements we have made a final settlement except the material and supply account, which is subject to check, and that was because the roads were all ready to settle except that item, and I thought it fair to adjust that and leave the materials and supplies to an actual checking. With those two exceptions there are no conditions attached to any settlements that we have ever made.

Senator POINDEXTER. What two roads were they?

Mr. DAVIS. That was the Northern Pacific Railroad and the Northwestern Pacific Railroad. We have checked out the Northwestern Pacific and settled finally with them. The adjustment on the Northern Pacific is in process of check.

Senator TOWNSEND (presiding). In that problem of checking up materials and supplies is the question of efficiency of labor in any way involved, or may it in any way, in any possibility, be involved?

Mr. DAVIS. Absolutely not involved. About the material and supplies there are two questions: First, the quantity—what did we take over? Second, what did we return? And then there is a third, which is the pricing. Now, under the provisions of the standard rate, if there is a deficiency in material and supplies the Railroad Administration is to pay the railroads for that deficiency based on the price at the end of Federal control. If there is an excess of material and supplies the railroad corporation is to take the excess over, based on the same price. So you will see that we have involved: How much did we get? How much did we turn over? And the prices at the end of Federal control. Those are the matters involved in the material and supply account.

Senator TOWNSEND (presiding). Any further questions of the witness?

Senator WATSON. Originally there were \$1,100,000,000 of these improvements, betterments, and additions, were there not?

Mr. DAVIS. In round figures; yes, sir.

Senator WATSON. Well, what condition is that whole sum in now?

Mr. DAVIS. Well, I am speaking now in round figures.

Senator WATSON. Yes.

Mr. DAVIS. \$380,000,000 is represented in the equipment trust, of which there are \$310,000,000 of outstanding certificates, and the balance was paid in cash. The rest of the additions and betterments, aggregating something over \$700,000,000—there has been a small amount that has been funded in some of the settlements that we make, and the rest of it is charged against the railroads.

Senator WATSON. Amounting to about \$700,000,000?

Mr. DAVIS. Yes; a little over \$700,000,000, Senator.

Senator WATSON. Now you propose to fund \$500,000,000?

Mr. DAVIS. I think that the funding that the railroads will be entitled to, based on necessity, ability to give adequate security, would not exceed \$500,000,000.

Senator PITTMAN. Does the Government hold any evidence of that indebtedness due for betterments?

Mr. DAVIS. No, sir; that is in our open account with the railroad. That was paid out during the period of Federal control. You see, we kept an account with each railroad. There are a great variety of items of account, and among them is the additions and betterments account, and that is charged on our books against the railroads.

Senator PITTMAN. At the present time that is not a loan, just an indebtedness?

Mr. DAVIS. Well, it is an indebtedness on open account, Senator; that is what it is.

Senator PITTMAN. I say it is an indebtedness, but it is not a loan.

Mr. DAVIS. It is not a loan; no.

Senator PITTMAN. Well, then, your statement a while ago that this was going to be in the nature of a renewal of a loan is hardly accurate.

Mr. DAVIS. Well, I remember the discussion that you had with Mr. Meyer about that. I think that the fair way to express this is the extension of an existing indebtedness, and if you change the form you do not change the indebtedness; that would be my thought about it; but I do not think it makes any difference what you call it.

Senator PITTMAN. It does not make any difference excepting that terms may sometimes deceive people.

Mr. DAVIS. Yes, sir.

Senator PITTMAN. At the present time the railroads owe the Government on that account something over \$700,000,000.

Mr. DAVIS. Yes, sir.

Senator PITTMAN. The Government has the right to take proceedings to collect.

Mr. DAVIS. Yes; that is due on open accounts.

Senator PITTMAN. All right. Now, if you transfer that into notes or bonds, then it ceases to be an account that the Government can sue on immediately, but becomes a loan that may be sued on in accordance with the terms of the contract alone.

Mr. DAVIS. Yes.

Senator KELLOGG. No; the Government could not sue on some of it, because the law provides that some of it should be funded.

Mr. DAVIS. Well, of course, that would refer to the balance, Senator, after we have exercised the right of offset, as provided in the transportation act.

Senator PITTMAN. That is what I am discussing right now.

Mr. DAVIS. Yes.

Senator PITTMAN. It would not appear to me to be an accurate expression to say it was a renewal of a loan.

Mr. DAVIS. Well, my thought about it was that it would be quite accurate to say that it is an extension of existing indebtedness. I think that would be the accurate way.

Senator PITTMAN. Well, as a matter of fact it is transferring an indebtedness into some character of extension in the form of a written obligation.

Mr. DAVIS. Yes, sir; it is transferring an open account into a definite time obligation represented by a written contract.

Senator SMITH. I would like to ask Mr. Davis, What amount does the Government owe the railroads in the form of compensation for the use of the roads during Federal control?

Mr. DAVIS. It is a little difficult to give that, Senator.

Senator SMITH. Well, approximately.

Mr. DAVIS. Mr. Tracy, you have got that on your statement, have you not? It is about \$400,000,000. is it not?

Senator WATSON. You stated here \$350,000,000 to \$400,000,000.

Mr. DAVIS. That is on general account, but we have offset against that, you understand. It is a little difficult to pick out one particular item and give that with any particular accuracy.

Mr. TRACY. Approximately \$450,000,000.

Mr. DAVIS. Approximately \$450,000,000 still due on compensation. I might say this, Senator, under the terms of the standard contract it was intended that the railroads should receive their compensation quarterly, just like I hope everybody receives his salary, except a little oftener than that. Now, because of exigencies that I am not personally familiar with, lack of appropriation, that provision of the contract was not carried out. The railroads were paid on account as they exhibited pressing necessity, so that at the end of Federal control we find a large amount of installments of compensation that should have been paid quarterly that have never been paid. Now, under the contract the Government is liable for interest on that.

Senator SMITH. Now, what I wanted to get clear in my mind is this: The \$700,000,000 that is due from the railroads to the Government would be what would commonly be called capital improvement or capital account. Well, the railroads, even when under private control, never charged that to the earnings or the profits arising from their general business; that is, they do not charge that to the—

Mr. DAVIS (interposing). That is not charged as operating or maintenance.

Senator SMITH. That is not charged as operating or maintenance?

Mr. DAVIS. No.

Senator SMITH. They need that for operating and maintenance?

Mr. DAVIS. The amount of compensation, on the theory of railroad operation, should be due them for operation and maintenance, and not for capital account.

Senator SMITH. Well, now, that is what I am getting clear in my mind. Therefore this amount, \$450,000,000, is due the railroads for, let us say, current expenses in keeping up their railroads?

Mr. DAVIS. Yes, sir; it is compensation for the use of the property.

Senator SMITH. Now, if they were required to use that in the liquidation of the \$700,000,000, it would be tantamount to taking the sum from current operations and investing it in capital account, would it not?

Mr. DAVIS. Yes, sir; that is the result of it, and that is not the theory under private control.

Senator SMITH. Yes; I wanted to get that clear in my mind. So that when it was said that the railroads were owing us so much, and that we were owing the railroads so much, why does that not balance one against the other? Now, if we were to require the railroads to pay the capital indebtedness due the Government, and they were to carry out the policy that heretofore obtained, and we would not accept the railroads' obligations, then the railroads would have to go into the market to sell bonds or secur-

ties of whatever nature they could sell in the investment market, to get that money and pay us, and keep their current account to meet current expenses.

Mr. DAVIS. Yes, sir.

Senator SMITH. Well, now, I have got that straight.

Senator TOWNSEND (presiding). Are there any other questions to be asked of the witness?

Senator STANLEY. How much in round numbers was the Government owing the railroads and the railroads owing the Government at the expiration of Federal control?

Mr. DAVIS. Oh, I could not give you a summary of that, Senator. At the expiration of Federal control the accounts had not been made up, and there are so many items in dispute. The railroads have charged against the administration a large amount of maintenance, depreciation and retirement and replacement and materials and supplies that are in dispute. I could not answer that question, sir.

Senator STANLEY. Do you know approximately?

Mr. DAVIS. No, sir; I could not. We have had such very large claims made, and each claim is a matter of somewhat extended analysis and then somewhat rather prolonged dispute before we get them settled.

Senator STANLEY. Well, how long was it after the conclusion of Federal control until the director general was able to ascertain approximately what we owed the railroads and what the railroads owed us?

Mr. DAVIS. Well, we don't know now, sir. There is occasionally some criticism of what seems to be the reason for prolonging the existence of the Railroad Administration. I think that it should be understood that there were very few claims filed in final settlement during the calendar year of 1920. The railroads went back to their owners the 1st of March. They had the question of the guaranty period and the reorganization of their forces, and as a matter of fact but few claims were filed before January 1 of the current year. Now since then there have been some 212 separate claims filed, which aggregated, on the 31st of July, \$785,966,673. Now those claims are in process of analysis, and we are settling them every day, practically, as we go along. But that only represents about 70 per cent of the claims, and there are 30 per cent of the claims that have not been filed, so you will see how absolutely impossible it would be to give anything like a definite estimate.

Senator STANLEY. The railroads are making a claim, then, against the Government for over a billion dollars in one form or another as due at the expiration of Federal control?

Mr. DAVIS. Yes, sir; on the various items that grow out of the complicated proposition of operating a railroad for 26 months.

Senator STANLEY. And at that time how much was the Government to pay the railroads? How much did it owe the railroads?

Mr. DAVIS. Well, I could not give you that. That indebtedness is set up by the administration on our theory, and that is disputed by the railroads. They dispute our accounts and we dispute theirs, so it is absolutely impossible to make a definite estimate. But I can say this to you, Senator, that we have made a pretty careful estimate, based on our past experience. Having made 100 settlements, we begin to know about what we are able to do. We think we can pay the balance that the Railroad Administration owes the carriers, and including outside claims, as of July 1, about \$349,000,000. We had on hand at that time—we have not that much now, because we have paid out—about \$149,000,000 that is available, and we expected to ask a general appropriation of \$200,000,000, which ought to liquidate the matter of final settlement. This should be taken with two reservations: First, that the construction of the standard contract as made by the Railroad Administration will prevail as against constructions claimed by the carriers, and, second, this does not include funding of additions and betterments properly chargeable to capital account.

Senator KELLOGG. It has prevailed in all your settlements?

Mr. DAVIS. To date, sir; yes, sir; but that is as near as I can answer your question.

Senator STANLEY. At this time we have no definite idea what the railroads owe the Government or what the Government owes the railroads?

Mr. DAVIS. Well, I have given you the statement that I think it will be a balance against the Railroad Administration of about \$349,000,000.

Senator STANLEY. That is, the Government will owe the railroads that much more than the railroads will owe the Government?

Mr. DAVIS. Yes; that will be the balance.

Senator POINDEXTER. That is a very small part, however, of the Government's loss for the venture of Government operation.

Mr. DAVIS. Yes, sir.

Senator STANLEY. I am not discussing the merits or demerits of Government operation, Senator.

Senator POINDEXTER. I was not referring, Senator, at all, in the question that I asked, to anything that you said. I was just asking for separate information.

Senator STANLEY. I thought the Senator had the idea that I was directly or indirectly reaching at the question of Government operation, its merits or demerits.

Senator POINDEXTER. I had no reference to what you were saying, Senator, in my question.

Senator STANLEY. I was under the impression that the Senator thought I was reaching directly or indirectly at the propriety of Government operation.

Senator POINDEXTER. Not at all.

Senator STANLEY. Now in these various statements that have been made, Mr. Davis, how many railroads have ascertained what they owed the Government and what the Government owed them, and in the event they were more indebted to the Government than the Government was to the road have settled in cash or its equivalent?

Mr. DAVIS. Well, I do not think any railroad has ever paid us cash. But where there is a deficit, where the obligation is against the railroad, and they have not had any money, we have taken the best that we could get ordinarily. And we have not had many cases of that kind, because ordinarily on final settlement the balance is in favor of the roads, and for this reason, Senator: During the period of Federal control the Railroad Administration was very sparing in its advances to the railroads. It only advanced them as they showed necessity. The Government in all of its departments was pressed for money. There was a time when the Railroad Administration was out of money, and there have been very few cases; in fact, I don't know that I recall but one now where the balance was against the railroad and in favor of the administration. In that case we took their obligation with bonds as security.

Senator STANLEY. There has been no payment of money by the railroads to the Government in any case?

Mr. DAVIS. No; not on final settlement. And you may recall or know that the Government took a great deal of cash from the prosperous railroads when it first took the property over. Take some of the very large systems that had carried a large amount of what they called working balances, the Government appropriated that money and in some instances there is a balance of that still due. Take the big systems, they would keep a working capital of ten, fifteen, twenty-five, or thirty million dollars. The Government appropriated that money at the beginning of Federal control. Of course we have to provide for that.

Senator MCLEAN. What did the Government do with that money?

Mr. DAVIS. It used it for the roads that did not have money, I guess. It used it for the general operation during Federal control. There was a great interchange. The Government would take money from one road that had money, and advance it to some road that did not have any.

Senator STANLEY. Has it been the practice of the Government to repay this cash that was taken, first?

Mr. DAVIS. No; we have made no piecemeal settlement. We have advanced railroads on account where there was a clear difference in their favor. I thought it was not wise to take up specific adjustments of items, but they all ought to be lumped up, for we can do better that way.

Senator MCLEAN. Do you have any idea of the total of the money that the Government took out of A's pocket and gave to B?

Mr. DAVIS. No; a great deal of that was done in the early period, and I was not here then, or not connected with the Railroad Administration, and not familiar with that. But there was a good deal of that done.

Senator STANLEY. The Government, or Congress in the transportation act of 1920, I believe it was, created a revolving fund of about \$500,000,000, was it not?

Mr. DAVIS. Yes, sir.

Senator STANLEY. Now as I understand you, the effect of this act would be to put into this revolving fund the proceeds of the sale of these various obligations that were, by some oversight, not made negotiable under existing law by the Government.

Mr. DAVIS. I don't think it would be the purpose to put it into that specific appropriation, for there were a number of appropriations made subsequent to that, but it would be to put it into a general fund for the use of the Railroad Administration in liquidating, and it is the purpose described in section 202 of the transportation act of 1920.

Senator STANLEY. Now, what is the difference between the uses to which that revolving fund could be put and the uses to which the proceeds of the sale of these obligations could be put by the railroads, if any?

Mr. DAVIS. I think there would be none, because under the provisions of section 202 any balance remaining from all of the appropriations that were made for the

benefit of the Railroad Administration, is reappropriated, so I think it all becomes one fund for one general purpose.

Senator STANLEY. And all of these notes and these stocks and bonds and other negotiable instruments that are to be turned over, are now turned over or will in the future be turned over, sold by the railroads to the general public, the proceeds of those sales would go into a fund that was to be invested, and subsequently invested, and invested again until the repeal of this act?

Mr. DAVIS. No, sir; there is a very definite limit to it.

Senator STANLEY. What would be the limit?

Mr. DAVIS. The limit would be the amount that would be refunded, not exceeding \$500,000,000, and the amount necessary to pay out in final liquidation not exceeding \$200,000,000, so that I can not conceive of any extension of this right or any disposition of these funds, these obligations that we have on hand, or might be taken in the future, that would extend beyond the money necessary to refund and the money necessary to pay the debt which the Railroad Administration owes the railroads. There would be no purpose to dispose of the funds by the Railroad Administration if it had no use for the money, and as soon as we wind up this business that is the end of it.

Senator STANLEY. The revolving fund will cease to revolve.

Mr. DAVIS. Yes, sir.

Senator STANLEY. Well, how long do you think that would be?

Mr. DAVIS. Well, I, with some reluctance, made an estimate yesterday that if we proceed in the normal way, if there is no extended litigation over the construction of the act, I think the bulk of this railroad liquidation should be ended by the 31st of December, 1922.

Senator STANLEY. What is the maximum amount which could be realized by the railroads by the operation of this act?

Mr. DAVIS. That money that would go to the railroads?

Senator STANLEY. Yes. Suppose the Railroad Administration, the Director General of Railroads, and the railroad companies and the War Finance Corporation should all see the necessity of giving the roads all that they could acquire under this act, what is the maximum amount the railroads could secure by the operation of this act just as it is, exactly?

Mr. DAVIS. If I should continue in my present position, I would say it would not exceed \$500,000,000 in the matter of refunding and \$200,000,000 on final settlement.

Senator STANLEY. But suppose you believed that they ought to get all they could under this act, how much could they get?

Mr. DAVIS. I don't think they could get any more than that. While we have \$700,000,000 of outstanding additions and betterments, I can not conceive of any circumstances where the railroads would be entitled to any more than that.

Senator STANLEY. Well, is there any limit fixed by the act itself upon the amount?

Mr. DAVIS. There is a limit of \$500,000,000 in one section of the act.

Senator STANLEY. That is section 22 (a)?

Mr. DAVIS. Section 22 (a): "The corporation may purchase from the President and the President may sell to the corporation any bonds, notes, or other securities acquired by the President either before or after this section takes effect, under authority of the Federal control act, the transportation act, 1920, or the act entitled 'An act to provide for the reimbursement of the United States for motive power, cars, and other equipment ordered for railroads and systems of transportation, and for other purposes,' approved November 19, 1919, at an aggregate purchase price not exceeding \$500,000,000."

I would say that that is a limitation of the power of the War Finance Corporation to purchase.

Senator STANLEY. Now, take section (c).

Mr. DAVIS. Well, that section (c) does not give power to the War Finance Corporation to purchase, but does give power to the Railroad Administration to sell, so if it should so be that because the War Finance Corporation did not have the money, or the railroad security market became such that these 6 per cent securities could be sold to the outsiders, the Railroad Administration then, through the War Finance Corporation, could sell direct to the investor. Now, there is no limit on that amount, but the limit would be, I would say, the necessities of the railroad's administration, and in my own judgment those necessities could not exceed the amounts that I have named, \$500,000,000 for funding and \$200,000,000 for settlement.

Senator STANLEY. Suppose, Mr. Davis, that the railroads could not run at a profit; that after you had spent the \$500,000,000 that you are in exactly the same position that you are now; that the same necessities exist on account of conditions over which we have no control, just as conditions over which we have no control have put the railroads where they are now, could you get a few hundred million more under this act?

Mr. DAVIS. No, sir; because we are only authorized to advance money growing out of Federal control, and Federal control having ceased, if the railroads now, through any cause should become insolvent there is no way that the Railroad Administration can help them.

I have had a great many claims of that kind. I had a claim the other day from a road running through Missouri and Arkansas where they said they would have to abandon the road unless we helped them, and I was very sympathetic, but I could not find any way to help them, because we are limited entirely to those obligations arising out of Federal control, and the situation that you suggest would be liabilities arising out of private control, with which we have nothing to do.

Senator STANLEY. Well, do we know just what those obligations are that arose under Federal control?

Mr. DAVIS. Why, I have told you, Senator——

Senator STANLEY (interposing). I understood you to say that you had no definite knowledge.

Mr. DAVIS. I could not tell you definitely. I am giving you my best estimate of what they would be.

Senator McLEAN. Subsequent legislation gave the roads, or proposed to give the roads, rates that would earn a certain rate of dividend.

Mr. DAVIS. Yes, sir.

Senator McLEAN. Now, suppose that the rates do not earn that rate of dividend, are the roads going to claim that there was another moral or legal operation on the part of the Government?

Mr. DAVIS. They can not claim that against the Railroad Administration.

Senator KELLOGG. They can not claim it against anybody.

Mr. DAVIS. No; there is not a guaranty of that, Senator, as I understand it.

Senator McLEAN. No; of course, they can not, and there is no guaranty.

Senator KELLOGG. No.

Senator McLEAN. But Congress undertook to enact a law that would provide that income.

Senator KELLOGG. I do not think they did.

Senator POINDEXTER. I do not think it provided that it should produce that income.

Mr. DAVIS. Expressed the hope that it would.

Senator POINDEXTER. Yes.

Senator WATSON. And they should be entitled to that much if they would earn it.

Senator LA FOLLETTE. They directed the Interstate Commerce Commission to fix a rate that would produce it, in plain terms; that is what Congress did.

Senator McLEAN. Yes; and it did not do it.

Senator WATSON. What is that?

Senator LA FOLLETTE. They directed the Interstate Commerce Commission to fix a rate that would produce it.

Senator KELLOGG. As near as may be.

Senator WATSON. As near as may be.

Senator LA FOLLETTE. Well, and to keep on fixing it until it did produce that return; that is the plain meaning of the act, and that is what they——

Senator WATSON (interposing). I hope they do, because they are certainly entitled to 5½ per cent. But they did not do it.

Senator LA FOLLETTE. And they have raised the rates until it stalled traffic on a great many of the products.

Senator TOWNSEND (presiding). Senator La Follette, any questions?

Senator LA FOLLETTE. I do not know whether Senator Stanley has completed his questions.

Senator STANLEY. Yes.

Senator LA FOLLETTE. I wanted to ask a question or two. Gen. Davis, will you furnish a complete list of all the securities of railroads now held by the Government, in so far as you know them?

Mr. DAVIS. Well, I would appreciate it, Senator, if you would say all the railroad securities taken by the Railroad Administration. I can do that very readily.

Senator LA FOLLETTE. You can do that?

Mr. DAVIS. I can do that, and Mr. Clark is here, and he can furnish the securities taken by the Interstate Commerce Commission. There are two separate propositions, and I will be very glad to do that, Senator.

Senator LA FOLLETTE. I wish you would furnish a list of those securities.

Mr. DAVIS. Yes; I will be glad to.

Senator LA FOLLETTE. And the price at which they were acquired.

Mr. DAVIS. Yes, sir.

Senator LA FOLLETTE. The date upon which they were acquired.

Mr. DAVIS. Yes.

Senator LA FOLLETTE. And the rate of interest which they bear, and the date of their maturity.

Mr. DAVIS. Will you take a memorandum of that, Mr. Tracy, please?

Senator LA FOLLETTE. It will be in your testimony here, which will be furnished you, I suppose, to-morrow?

Mr. DAVIS. Yes, sir; I will be very glad to furnish that promptly.

Senator LA FOLLETTE. I thank you.

(The list of securities furnished by Mr. Davis is here printed in full, as follows:)

Note.—Exhibit A is a classified list of transportation companies formerly under Federal control with whom final settlements have been made by the director general up to August 10, 1921.

Exhibit B is a list of definitive obligations of carriers held by the director general as of August 1, 1921.

Exhibit C is a list of obligations of carriers and securities deposited by carriers held August 1, 1921, pending final determination and settlement of accounts. These obligations are temporary in their character, and were largely taken during the early period of actual Federal control, when advances were made by the director general to the individual carriers. At that time it was uncertain as to whether the particular carriers in this list would be debtors or creditors of the administration at the end of Federal control, and as a matter of protection, and to save the Government in the event of final liability of the carriers to the administration, these short-time obligations were taken. Many of them are demand notes. In some instances no notes were taken, but a deposit of collateral was made, accompanied by a letter indicating that the deposit was made to secure the Government against any ultimate liability on the part of the carrier.

In the final settlements which will be made with the carriers in this list, many of these obligations will be canceled for the reason that the carriers will turn out to be creditor instead of debtor companies, and in other instances the short-term obligations will be converted into definite obligations. This list therefore should not be considered as a definite list of assets of the Railroad Administration, but was a temporary taking of securities under the circumstances above described.

EXHIBIT A.

CLASSIFIED LIST OF TRANSPORTATION COMPANIES FORMERLY UNDER FEDERAL CONTROL WITH WHOM FINAL SETTLEMENTS HAVE BEEN MADE BY THE DIRECTOR GENERAL TO AUGUST 10, 1921.

CLASS 1.

Ann Arbor Railroad Co.
Bangor & Aroostook Railroad Co.
Belt Railway Co. of Chicago.
Bessemer & Lake Erie Railroad Co.
Buffalo, Rochester & Pittsburgh Railroad Co.
Carolina, Clinchfield & Ohio Railway Co., including subsidiaries:
 Carolina, Clinchfield & Ohio Railway of South Carolina.
 Black Mountain Railway Co.
Chicago Junction Railway Co.
Chicago, Milwaukee & St. Paul Railway Co.
Chicago & Eastern Illinois Railway Co.
 (Wm. J. Jackson, receiver).
Cincinnati, Indianapolis & Western Railroad Co.
Delaware, Lackawanna & Western Railroad Co.
Duluth & Iron Range Railroad Co.
Duluth, Missabe & Northern Railway Co.
Elgin, Joliet & Eastern Railway Co.
Galveston Wharf Co.
Great Northern Railway Co., including subsidiaries:
 Duluth Terminal Railway Co.
 Minneapolis Western Railway Co.
 Minneapolis Belt Line Co.

Great Northern Railway Co., including subsidiaries—Continued.
 Great Northern Terminal Railway Co.
 Great Northern Equipment Co.
 Duluth & Superior Bridge Co.
 Watertown & Sioux Falls Railway Co.
 Montana Eastern Railway Co.
 Great Falls & Teton County Railway Co.
Gulf Coast Lines, consisting of—
 New Orleans, Texas & Mexico Railway Co.
 St. Louis, Brownsville & Mexico Railway Co.
 Beaumont, Sour Lake & Western Railway Co.
 Orange & Northwestern Railroad Co.
 New Iberia & Northern Railroad Co.
 Iberia, St. Mary & Eastern Railway Co.
Gulf, Mobile & Northern Railroad Co., including subsidiary:
 Meridian & Memphis Railway Co.
Kansas City, Mexico & Orient Railroad Co., including Kansas City, Mexico & Orient Railway Co. of Texas.
Lehigh & Hudson River Railway Co.
Louisiana & Arkansas Railway Co.
Midland Valley Railroad Co.
Mississippi Central Railroad Co.

Missouri Pacific Railroad Co., including subsidiaries:	Rapid City, Black Hills & Western Railroad Co. Waupaca-Green Bay Railway Co.
Arkansas Central Railroad Co.	
Coal Belt Electric Railway Co.	
Natchez & Southern Railway Co.	
Natchez & Louisiana Railway Transfer Co.	
Union Railway Co.	SWITCHING AND TERMINALS.
Mobile & Ohio Railroad Co.	Alton & Southern Railroad.
New Orleans Great Northern Railroad Co.	Boston Terminal Co.
Northern Pacific Railway Co., including subsidiaries	Chattanooga Station Co.
Big Fork & International Falls Railway Co.	Charleston Terminal Co.
Gilmore & Pittsburgh Railroad Co.	Chicago River & Indiana Railway Co.
Northwestern Pacific Railroad Co.	Chicago & Western Indiana Railroad Co.
Pittsburgh & West Virginia Railway Co.	Denver Union Terminal Railway Co.
Southern Railway Co.	Des Moines Terminal Co.
Spokane, Portland & Seattle Railway Co.	Des Moines Union Railway Co.
Ulster & Delaware Railroad Co.	Duluth Union Depot & Transfer Co.
Western Pacific Railroad Co., including subsidiary:	Durham Union Station Co.
Deep Creek Railroad Co.	El Paso Union Passenger Depot Co.
CLASS II.	Fort Worth Belt Railway Co.
Abilene & Southern Railway Co.	Fort Worth Union Passenger Station Co.
Chicago, Milwaukee & Gary Railway Co.	Gulf Terminal Co.
Clinton & Oklahoma Western Railway Co.	Iowa Transfer Railway Co.
Cumberland & Pennsylvania Railroad Co.	Jay Street Terminal.
Escanaba & Lake Superior Railroad Co.	Joliet Union Depot Co.
Farmers Grain & Shipping Co.	Meridian Terminal Co.
Green Bay & Western Railroad Co., including subsidiaries:	Minneapolis Eastern Railway Co.
Kewaunee, Green Bay & Western Railroad Co.	Missouri & Illinois Bridge & Belt Railroad Co.
Ahnapee & Western Railway Co.	New York Connecting Railroad Co.
Gulf, Texas & Western Railway Co.	New York Dock Railway.
Lake Superior & Ishpeming Railway Co.	Richmond Terminal Railway Co.
Louisiana Southern Railway Co.	Salt Lake City Union Depot & Railroad Co.
Manistique & Lake Superior Railroad Co.	
Munising, Marquette & Southeastern Railway Co.	Sioux City Bridge Co.
Oregon Trunk Railway Co.	Southern Illinois & Missouri Bridge Co.
Rio Grande Southern Railroad Co.	St. Joseph Belt Railway Co.
Sussex Railroad Co.	St. Louis National Stock Yards Railroad.
Texas Midland Railroad.	Trans-Mississippi Terminal Railroad Co.
West Side Belt Railroad Co.	
CLASS III.	CARRIERS BY WATER.
Bennettsville & Cheraw Railroad Co.	Baltimore Steam Packet Co.
Fairchild & Northeastern Railway Co.	Chesapeake Steamship Co.
Lackawanna & Montrose Railroad Co.	Clyde & Mallory Steamship Co.

EXHIBIT B.

Definitive obligations of carriers held on Aug. 1, 1921.

BONDS.

[Interest, 6 per cent.]

Name of road.	Class.	Date of obligation.	Date of maturity.	Price.	Amount.
Boston & Maine R. R.	Mortgage, series C.	Jan. 1, 1919	Jan. 1, 1929	Par.	\$2,273,000.00
Do	Mortgage, series C.	Jan. 1, 1920	do	Par.	8,000,000.00
Do	Mortgage, series D.	July 1, 1920	Jan. 1, 1929	984	15,943,000.00
Kansas, Oklahoma & Gulf.....	Series A	Mar. 1, 1920	Jan. 1, 1937	Par.	173,900.00
Total					26,349,900.00

Definitive obligations of carriers held on Aug. 1, 1921—Continued.

NOTES.

[Price, par; interest, 6 per cent.]

Name of road.	Date of obligation.	Date of maturity.	Amount.	Collateral.	Amount.
Baltimore & Ohio R. R.	Mar. 1, 1920	Mar. 1, 1930	\$9,000,000.00	Baltimore & Ohio R. R. Co., refunding and general mortgage 6 per cent bonds, series B, due 1995.	\$10,000,000
				Baltimore & Ohio R. R. Co., refunding and general mortgage 5 per cent bonds, series A, due 1995.	3,000,000
				Sandy Valley & Elkhorn Ry. Co., refunding and general mortgage 5 per cent bonds, due 1995.	2,200,000
Bangor & Aroostook	July 1, 1921	....do.....	325,000.00	Bangor & Aroostook R. R. Co., consolidated refunding mortgage 4 per cent bonds, due 1951.	813,000
Chicago, Milwaukee & St. Paul.	Nov. 1, 1920	....do.....	20,000,000.00	Chicago, Milwaukee & St. Paul R. R. Co., general and refunding mortgage 6 per cent bonds, series Z, due 2014.	32,000,000
Erie.....	July 1, 1921	....do.....	8,250,000.00	Erie R. R. Co., refunding and improvement mortgage 6 per cent bonds, due 1937.	12,375,000
				Erie R. R. Co., general mortgage convertible 4 per cent bonds, series B, due 1953.	545,000
				Erie Terminal Co., 5 per cent demand notes dated Apr. 1, 1915.	600,000
Gulf, Mobile & Nor.	Feb. 1, 1921	....do.....	480,000.00	Sharon Ry. Co., capital stock.	100,000
				Gulf, Mobile & Northern R. R. Co., first mortgage 6 per cent series A bonds, due 1950.	960,000
New York, New Haven & Hartford.	Nov. 1, 1920	....do.....	17,000,000.00	New York, New Haven & Hartford first and refunding mortgage 6 per cent bonds, series A, due 1930.	20,000,000
Do.....	....do.....	Oct. 31, 1920	43,026,500.00	....do.....	50,620,000
Southern Express Co.	Dec. 30, 1920	Dec. 30, 1921	843,538.08	American Railway Express Co., capital stock.	1,250,000
			98,925,038.08		134,463,000

RECEIVERS' CERTIFICATES.

[Price, par; interest, 6 per cent.]

Name of road.	Date of obligation.	Date of maturity.	Amount.
International & Great Northern.....	Nov. 1, 1918	Nov. 1, 1921	\$1,400,000.00

Equipment trust obligations.

[Date, Jan. 15, 1920; price, par; interest, 6 per cent; payable in 14 annual installments, beginning Jan. 15, 1922, and ending Jan. 15, 1935.]

Alabama Great Southern R. R. Co.	\$154,000.00	Boston & Maine R. R.	\$4,974,200.00
Ann Arbor R. R. Co.	733,600.00	Buffalo, Rochester & Pittsburgh Ry. Co.	1,870,400.00
Atchison, Topeka & Santa Fe Ry. Co.	6,865,600.00	Carolina, Clinchfield & Ohio Ry.	5,796,000.00
Atlanta, Birmingham & Atlantic Ry. Co.	917,000.00	Central R. R. Co. of New Jersey	3,282,000.00
Atlantic Coast Line R. R. Co.	5,954,200.00	Charleston & Western Carolina Ry. Co.	763,000.00
Atlantic Coast Line R. R. Co. and the Louisville & Nashville R. R. Co., joint lessees of the Georgia R. R. Co.	1,104,600.00	Chesapeake & Ohio Ry. Co.	10,458,000.00
Baltimore & Ohio R. R. Co.	16,613,800.00	Chicago & Alton R. R. Co.	1,695,400.00
		Chicago, Burlington & Quincy R. R. Co.	5,656,000.00
		Chicago & Eastern Illinois R. R. Co.	691,600.00

REFUNDING OF RAILROAD DEBT.

Chicago, Indianapolis & Louisville Ry. Co.	\$970,200.00	Mobile & Ohio R. R. Co.	\$567,000.00
Chicago Great Western R. R. Co.	607,600.00	Monongahela Ry. Co.	460,603.00
Chicago Junction Ry. Co.	446,600.00	Morgantown & Mingwood R. R. Co.	2,427,600.00
Chicago, Milwaukee & St. Paul Ry. Co.	15,348,200.00	Nashville, Chattanooga & St. Louis Ry. Co.	1,211,000.00
Chicago & Northwestern Ry. Co.	9,308,600.00	New York Central R. R. Co.	12,762,400.00
Chicago, Rock Island & Pacific Ry. Co.	7,576,100.00	New York, New Haven & Hartford R. R. Co.	4,019,400.00
Chicago, St. Paul, Minneapolis & Omaha Ry. Co.	2,185,200.00	Norfolk Southern R. R. Co.	123,200.00
Chicago & Western Indiana R. R. Co.	260,400.00	Norfolk & Western Ry. Co.	6,426,000.00
Cincinnati, New Orleans & Texas Pacific Ry. Co.	893,200.00	Northwestern Pacific R. R. Co.	253,400.00
Cleveland, Cincinnati, Chicago & St. Louis Ry. Co.	4,788,000.00	Pennsylvania R. R. Co.	48,544,000.00
Colorado & Southern Ry. Co.	980,000.00	Pere Marquette R. R. Co.	9,428,200.00
Delaware & Hudson Co.	3,715,600.00	Pittsburgh & Lake Erie R. R. Co.	543,200.00
Detroit, Toledo & Ironton R. R. Co.	788,200.00	Pittsburgh, McKeesport & Youghiogheny R. R. Co.	2,613,800.00
Detroit & Toledo Shore Line R. R. Co.	467,600.00	Richmond, Fredericksburg & Potowmac R. R. Co.	918,400.00
Erie Railroad Co.	4,201,400.00	Rutland R. R. Co.	345,800.00
Fort Worth & Denver City Ry. Co.	240,800.00	Seaboard Air Line Ry. Co.	1,540,000.00
Grand Trunk Railway of Canada	838,600.00	Southern Pacific Co.	2,626,400.00
Grand Trunk Western Ry. Co.	2,825,200.00	Southern Ry. Co.	9,606,800.00
Great Northern Ry. Co.	4,008,200.00	Spokane, Portland & Seattle Ry. Co.	820,400.00
Hocking Valley Ry. Co.	2,846,000.00	St. Louis-San Francisco Ry. Co.	13,424,600.00
Illinois Central R. R. Co.	8,509,200.00	Terminal R. R. Association of St. Louis	319,200.00
Indiana Harbor Belt R. R. Co.	550,200.00	Texas & Pacific Ry. Co.	2,233,000.00
Kanawha & Michigan Ry. Co.	954,800.00	Toledo & Ohio Central Ry. Co.	2,063,400.00
Kansas City Southern Ry. Co.	980,400.00	Toledo, St. Louis & Western R. R. Co.	1,103,200.00
Kansas City Terminal Ry. Co.	175,000.00	Virginian Ry. Co.	1,521,800.00
Lake Erie & Western R. R. Co.	507,800.00	Wabash R. R. Co.	10,381,000.00
Louisville & Nashville R. R. Co.	9,770,600.00	Washington Southern Ry. Co.	393,400.00
Maine Central R. R. Co.	1,122,800.00	Washington Terminal Co.	88,200.00
Michigan Central R. R. Co.	4,776,800.00	Western Maryland Ry. Co.	799,400.00
Minneapolis & St. Louis R. R. Co.	1,388,800.00	Wheeling & Lake Erie Ry. Co.	4,281,200.00
Missouri, Kansas & Texas Ry. Co.	1,177,400.00		311,862,300.00
Missouri Pacific R. R. Co.	9,549,400.00		

RECAPITULATION.

	Amount.	Amount (par or face value).
Bonds.....	\$26,389,900.00	
Notes.....	98,925,038.08	\$134,463,000.00
Receivers certificates.....	1,400,000.00	
Equipment trust obligations.....	311,862,300.00	
Grand total.....	438,577,238.08	134,463,000.00

EXHIBIT C.

Obligations of carriers and securities deposited by carriers held Aug. 1, 1921, pending final determination and settlement of accounts (maturity, demand; price, par; rate of interest, 6 per cent).

[These obligations are not definitive obligations, having been taken from time to time as temporary securities and will be adjusted or canceled as the result of final settlement, and at this time should not be considered as fixed assets of the Railroad Administration.]

Name of company.	Date.	Amount.	Collateral.	Par or face value.
American Refrigerating Transportation Co. (note).	Nov. 1, 1918	\$132,000.00	.....	.....
Do. Do.	Dec. 2, 1918	97,000.00	.....	.....
Ann Arbor R. R. Co. (note).	May 17, 1918	125,000.00	Ann Arbor R. R. Co. improvement and extension mortgage 5 per cent bonds, due 1941.	\$368,000.00
Do. Do.	Sept. 27, 1918	83,000.00	.....	.....
Do. Do.	Oct. 30, 1918	60,000.00	.....	.....
Do. Do.	Nov. 30, 1918	8,800.00	.....	.....
Do. Do.	Dec. 31, 1918	119,600.00	.....	.....
Do. Do.	Jan. 31, 1919	6,700.00	.....	.....
Do. Do.	Feb. 28, 1919	6,600.00	.....	.....
Do. Do.	Mar. 31, 1919	63,000.00	.....	.....

Obligations of carriers and securities deposited by carriers held Aug. 1, 1921, pending final determination and settlement of accounts (maturity, demand; price, par; rate of interest, 6 per cent)—Continued.

Name of company.	Date.	Amount.	Collateral.	Par or face value.
Ann Arbor R. R. Co. (note).	Oct. 15, 1919	\$75,000.00	Ann Arbor R. R. Co. improvement and extension mortgage 5 per cent bonds, due 1941.	\$157,000.00
Central Vermont Ry. Co. (note).	Jan. 31, 1919	340,000.00	.....	.....
Do.	Nov. 18, 1920	100,000.00	.....	.....
Do.	do	200,000.00	.....	.....
Chesapeake & Ohio Ry. Co. (note).	July 2, 1919	1,900,000.00	Chesapeake & Ohio Ry. Co. first lien and improvement mortgage 20-year 5 per cent bonds, series A, due Dec. 1, 1930. Richmond-Washington Co., capital stock. Southern Improvement Co. first mortgage 5 per cent bonds, due 1941.	2,202,000.00
Do.	Dec. 1, 1919	2,000,000.00	Chesapeake & Ohio Ry. Co. first lien and improvement mortgage 5 per cent bonds, series A, due Dec. 1, 1930.	2,500,000.00
Do.	Jan. 17, 1919	2,070,000.00	..... do	3,235,000.00
Do.	Mar. 14, 1919	250,000.00	..... do	391,000.00
Chicago & Alton (note).	Sept. 28, 1918	425,000.00	.....	.....
Do.	Dec. 30, 1918	425,000.00	.....	.....
Do.	Jan. 29, 1919	50,000.00	.....	.....
Do.	Mar. 31, 1919	725,000.00	.....	.....
Chicago, Indianapolis & Louisville (note).	Nov. 1, 1918	100,000.00	.....	.....
Do.	Jan. 25, 1919	100,000.00	Chicago, Peoria & St. Louis R. R. Co. 6 per cent equipment notes, series A, matured Nov. 1, 1918.	59,000.00
Chicago, Peoria & St. Louis (receivers) (note).	July 22, 1919	72,713.07	Coupon from Chicago, Peoria & St. Louis R. R. Co. equipment notes, series A, matured Nov. 1, 1918.	10,620.00
Chicago, Rock Island & Pacific (note).	Feb. 28, 1919	500,000.00	.....	.....
Do.	July 30, 1919	1,783,000.00	Chicago, Rock Island & Pacific Ry. Co. first and refunding mortgage 4 per cent gold bonds, due 1934.	2,972,000.00
Do.	Dec. 31, 1919	1,800,000.00	St. Paul & Kansas City Short Line R. R. Co. first mortgage 4½ per cent gold bonds, due 1941.	3,000,000.00
Chicago, Rock Island & Pacific (securities deposited).	Mar. 14, 1921	.....	Rock Island, Arkansas & Louisiana R. R. Co. first mortgage 4½ per cent gold bonds due 1934.	2,750,000.00
Chicago, Terre Haute & Southeastern (note).	July 30, 1918	150,000.00	Arkansas & Memphis Bridge & Terminal Co. first mortgage 5 per cent gold bonds due 1964.	1,950,000.00
Do.	Aug. 28, 1918	79,201.25	.....	300,000.00
Do.	Sent 28, 1918	50,250.00	.....	.....
Do.	Nov. 25, 1918	105,461.68	.....	.....
Do.	Jan. 31, 1919	183,000.00	.....	.....
Do.	Feb. 25, 1919	80,000.00	.....	.....
Do.	Mar. 28, 1919	50,000.00	.....	.....
Do.	June 13, 1919	180,000.00	Chicago, Terre Haute & Southeastern Ry. Co. first and refunding mortgage 5 per cent gold bonds, due 1960.	360,000.00
Copper Range (note).	Mar. 27, 1919	58,000.00	.....	.....
Delaware & Hudson Co. (note).	Sept. 18, 1918	1,500,000.00	.....	.....
Do.	Dec. 18, 1918	600,000.00	.....	.....
Do.	Feb. 28, 1919	82,000.00	.....	.....
Do.	Mar. 26, 1919	546,000.00	.....	.....
Do.	July 1, 1919	1,900,000.00	Hudson Coal Co., capital stock	2,375,000.00
Do.	..... do	1,250,000.00	..... do	1,562,500.00
Do.	..... do	1,160,000.00	..... do	1,450,000.00
Denver & Salt Lake (receivers' certificate). ¹	Sept. 10, 1918	859,468.44	.....	.....
Detroit, Bay City & Western (note).	Oct. 3, 1918	20,000.00	.....	.....

¹ Maturity, Sept. 10, 1920.

Obligations of carriers and securities deposited by carriers held Aug. 1, 1921, pending final determination and settlement of accounts (maturity, demand; price, par; rate of interest, 6 per cent)—Continued.

Name of company.	Date.	Amount.	Collateral.	Par or face value.
Detroit, Toledo & Iron-ton (note).	Apr. 26, 1918	\$200,000.00	Detroit, Toledo & Ironton R. R. Co. adjustment mortgage 5 per cent bonds, due 1954.	\$369,000.00
Do.	Sept. 30, 1918	12,000.00	.....	.....
Do.	Oct. 28, 1918	12,000.00	.....	.....
Do.	Nov. 30, 1918	37,375.00	.....	.....
Do.	Jan. 1, 1919	94,000.00	Detroit, Toledo & Ironton R. R. Co. first mortgage 50-year 5 per cent bonds, due 1954.	106,000.00
Do.	Feb. 25, 1919	11,500.00	.....	.....
Duluth, South Shore & Atlantic (note).	July 3, 1918	150,000.00	.....	.....
Franklin & Pittsylvania (note).	July 15, 1918	35,000.00	Franklin & Pittsylvania R. R. Co. 6 per cent bond, due 1923.	35,000.00
Grand Trunk Western (note). ²	Dec. 30, 1918	700,000.00	.....	.....
Huntington & Broad Top Mountain (note).	Nov. 4, 1918	66,000.00	.....	.....
Do.	Jan. 8, 1919	15,000.00	.....	.....
Do.	Jan. 27, 1919	8,000.00	.....	.....
Do.	Mar. 27, 1919	66,000.00	.....	.....
Illinois Central (note).	Oct. 28, 1918	1,000,000.00	.....	.....
Do.	Mar. 29, 1919	550,000.00	Illinois Central R. R. Co. refunding mortgage 4 per cent gold bonds, due 1955.	880,000.00
Do.	Nov. 10, 1919	5,500,000.00	Central of Georgia Ry. Co. preferred capital stock.	7,500,000.00
Illinois Central (securities deposited).	Mar. 31, 1920	.....	Central of Georgia Ry. Co. common capital stock.	2,500,000.00
Kansas City Southern (note).	Jan. 16, 1919	100,000.00	Illinois Central R. R. Co. refunding mortgage 4 per cent gold bonds, due 1955.	4,695,000.00
Do.	Mar. 28, 1919	450,000.00	.....	.....
Kansas, Oklahoma & Gulf (note).	Dec. 23, 1918	255,000.00	.....	.....
Do.	Jan. 12, 1920	74,303.40	.....	.....
Do.	do	450,000.00	.....	.....
Lehigh Valley (securities department).	July 8, 1920	.....	Lehigh Valley R. R. Co. general consolidated mortgage 4 per cent bonds, due 2003.	2,500,000.00
Michigan Central (note)	Oct. 29, 1918	1,200,000.00	.....	.....
Do.	Nov. 29, 1918	650,000.00	.....	.....
Do.	Dec. 30, 1918	1,200,000.00	.....	.....
Minneapolis & St. Louis (note).	Apr. 29, 1918	750,000.00	Minneapolis & St. Louis R. R. Co. refunding and extension mortgage 5 per cent 50-year gold bonds, due 1962.	1,500,000.00
Do.	Aug. 30, 1918	500,000.00	.....	.....
Do.	Nov. 30, 1918	225,000.00	.....	.....
Do.	Jan. 30, 1919	265,000.00	.....	.....
Do.	Feb. 27, 1919	450,000.00	.....	.....
Do.	Mar. 27, 1919	125,000.00	.....	.....
Missouri, Kansas & Texas Receivers (note).	Nov. 30, 1918	1,200,000.00	.....	.....
Missouri, Kansas & Texas of Texas Receivers (note).	do	150,000.00	Missouri, Kansas & Texas receivers' certificates, due Feb. 15, 1922.	150,000.00
Do.	Feb. 13, 1919	50,000.00	do	50,000.00
Do.	Mar. 27, 1919	100,000.00	do	100,000.00
Do.	June 30, 1919	73,000.00	do	73,000.00
Do.	Aug. 14, 1919	120,000.00	do	120,000.00
Do.	Sept. 27, 1919	59,000.00	do	59,000.00
Do.	Oct. 29, 1919	50,000.00	do	50,000.00
Do.	Jan. 1, 1920	55,000.00	do	55,000.00
Do.	Jan. 19, 1920	50,000.00	do	50,000.00
Do.	Feb. 18, 1920	52,000.00	do	52,000.00
Mobile & Ohio (note).	Jan. 11, 1919	60,000.00	.....	.....
Do.	Jan. 30, 1919	100,000.00	.....	.....
Do.	Feb. 14, 1919	67,500.00	.....	.....
Do.	Feb. 26, 1919	215,975.00	.....	.....
Do.	Mar. 26, 1919	53,975.00	.....	.....
Monongahela (note).	Feb. 8, 1919	350,000.00	.....	.....
Do.	Mar. 8, 1919	250,000.00	.....	.....

² Maturity, Dec. 30, 1920.

Obligations of carriers and securities deposited by carriers held Aug. 1, 1921, pending final determination and settlement of accounts (maturity, demand; price, par; rate of interest, 6 per cent)—Continued.

Name of company.	Date.	Amount.	Collateral.	Par or face value.
New York Central (note).	June 29, 1918	\$3,500,000.00	.....	.....
Do.....	Dec. 30, 1918	3,000,000.00	.....	.....
Do.....	Oct. 5, 1920	7,000,000.00	New York Central R. R. Co. refunding and improvement mortgage 6 per cent bonds, series B, due 2013.	\$7,000,000.00
New York, New Haven & Hartford (note). ¹	June 28, 1918	3,000,000.00	.....	.....
Do.....	Apr. 28, 1921	1,290,000.00	New York, New Haven & Hartford first mortgage 6 per cent bonds, series A, due 1930.	1,518,000.00
New York & Susquehanna & Western (note).	Mar. 29, 1919	145,000.00	.....	.....
Norfolk Southern (note)	Apr. 30, 1919	180,000.00	Norfolk Southern R. R. Co. first and refunding mortgage 5 per cent bonds, due 1961 (at the time this note was taken the railroad company also gave the director general its check for \$38,022 which he deposited to his credit in the Commercial National Bank, Washington, D. C.).	180,000.00
Old Dominion Steamship Co. (note).	Aug. 28, 1918	55,000.00	.....	.....
Do.....	Oct. 29, 1918	20,000.00	.....	.....
Pennsylvania R. R. Co. (note).	Apr. 16, 1918	2,000,000.00	Northern Central Ry. Co., capital stock.	1,650,000.00
Do.....	Apr. 23, 1918	2,000,000.00	.....	1,650,000.00
Do.....	Apr. 30, 1918	3,000,000.00	.....	2,500,000.00
Do.....	Nov. 14, 1918	5,000,000.00	.....	4,100,000.00
Do.....	May 24, 1918	5,000,000.00	Philadelphia, Baltimore & Washington R. R. Co., capital stock.	6,000,000.00
Do.....	June 26, 1918	3,000,000.00	.....	3,602,350.00
Pennsylvania R. R. Co. (securities deposited).	Jan. 14, 1921	.....	Philadelphia, Baltimore & Washington R. R. Co. capital stock.	400.00
			West Jersey & Seashore R. R. Co. capital stock.	497,400.00
			Pittsburgh, Cincinnati, Chicago & St. Louis R. R. Co. capital stock.	1,875,000.00
			Grand Rapids & Indiana Ry. Co. capital stock.	5,385,400.00
	Feb. 25, 1921	.....	Pennsylvania Tunnel & Terminal R. R. capital stock.	5,000,000.00
	Apr. 1, 1921	.....	Belt Ry. Co. of Chicago capital stock	238,000.00
			Cincinnati, Lebanon & Northern Ry. Co. capital stock.	2,093,300.00
			Cleveland, Akron & Cincinnati Ry. Co. capital stock.	6,188,400.00
			Cleveland & Pittsburgh R. R. Co. special guaranteed betterment stock.	1,100,100.00
			Indianapolis & Frankford R. R. Co. capital stock.	4,950,000.00
			Lake Erie & Pittsburgh Ry. Co. capital stock.	2,149,500.00
			Little Miami R. R. Co. special guaranteed betterment stock.	30,850.00
			Louisville Bridge & Terminal Ry. Co. capital stock.	2,254,000.00
			Pennsylvania Tunnel & Terminal R. R. Co. capital stock.	10,000,000.00
			Pittsburgh Joint Stock Yards Co. capital stock.	1,496,500.00
			Pittsburgh, Youngstown & Ashtabula Ry. Co. preferred stock.	44,400.00
			Walhonding Coal Co. capital stock.	260,100.00
			Norfolk & Western Ry. Co. common capital stock.	6,000,000.00
			Connecting Ry. Co. capital stock.	2,324,000.00
			Long Island R. R. Co. capital stock.	18,000,000.00
			Northern Central Ry. Co. capital stock.	2,150,000.00
			Philadelphia & Camden Ferry Co. capital stock.	885,450.00
			West Jersey & Sea Shore R. R. Co. common capital stock.	6,250,000.00

¹ Maturity, Nov. 1, 1921.

Obligations of carriers and securities deposited by carriers held Aug. 1, 1921, pending final determination and settlement of accounts (maturity, demand; price, par; rate of interest, 6 per cent)—Continued.

Name of company.	Date.	Amount.	Collateral.	Par or face value.
Peoria & Pekin Union (note).	Jan. 27, 1919	\$64,000.00	.....	.....
Pere Marquette (note).	Dec. 26, 1918	775,000.00	.....	.....
Pittsburgh & Lake Erie (note).	July 31, 1918	500,000.00	Monongahela Ry. Co. first and refunding mortgage 4½ per cent bonds, series A, due 1967.	\$1,000,000.00
Do.	Oct. 26, 1918	200,000.00	.....	.....
Pittsburgh & Shawmut (securities deposited).	Aug. 18, 1920	.....	Pittsburgh & Shawmut R. R. Co. first mortgage 5 per cent bonds, due 1959.	220,000.00
Do.	Oct. 25, 1920	.....	do.	187,000.00
Do.	Feb. 2, 1921	.....	do.	593,000.00
San Antonio & Aransas Pass (note).	Oct. 18, 1918	53,000.00	.....	.....
San Antonio, Uvalde & Gulf (receivers) (note).	Mar. 28, 1919	20,000.00	.....	.....
Seaboard Air Line.	June 28, 1918	1,000,000.00	Seaboard Air Line Ry. Co. first and consolidated mortgage 6 per cent bonds, series A, due 1945.	1,360,000.00
Seaboard Air Line (note).	July 31, 1918	850,000.00	do.	1,156,000.00
Do.	Aug. 30, 1918	1,000,000.00	.....	.....
Do.	Sept. 26, 1918	700,000.00	.....	.....
Do.	Nov. 23, 1918	160,000.00	.....	.....
Do.	Dec. 12, 1918	75,000.00	.....	.....
Do.	Dec. 28, 1918	890,000.00	.....	.....
Do.	Jan. 13, 1919	120,000.00	.....	.....
Do.	Jan. 30, 1919	700,000.00	.....	.....
Do.	Feb. 14, 1919	200,000.00	.....	.....
Do.	Feb. 27, 1919	965,000.00	.....	.....
Do.	Mar. 14, 1919	120,000.00	.....	.....
Do.	Mar. 20, 1919	725,000.00	Seaboard Air Line Ry. Co. first and consolidated mortgage 6 per cent bonds, series A, due 1945.	986,000.00
Seaboard Air Line (securities deposited).	Sept. 21, 1918	.....	do.	400,000.00
St. Louis Southwestern (note).	June 11, 1919	1,400,000.00	St. Louis Southwestern Ry. Co. first terminal and unifying mortgage 5 per cent bonds, due 1952.	2,967,000.00
St. Louis Southwestern (securities deposited).	Nov. 26, 1919	.....	do.	1,100,000.00
Tennessee Central (receiver) (note).	Jan. 1, 1919	30,000.00	.....	.....
Terminal R. R. Association of St. Louis (note).	Sept. 23, 1918	300,000.00	.....	.....
Texas & Pacific (receiver) (note).	Nov. 27, 1918	750,000.00	.....	.....
Do.	Dec. 18, 1918	150,250.00	.....	.....
Do.	Jan. 25, 1919	90,000.00	.....	.....
Toledo, St. Louis & Western (receiver) (note).	Feb. 3, 1919	200,000.00	.....	.....
Do.	Mar. 27, 1919	60,000.00	American Refrigerator Transit Co. capital stock (above collateral covers this loan also).	121,700.00
Wabash (note).	Aug. 30, 1918	575,000.00	.....	.....
Do.	Oct. 30, 1918	873,601.72	.....	.....
Do.	Nov. 18, 1918	220,000.00	.....	.....
Do.	Dec. 28, 1918	300,000.00	.....	.....
Do.	Jan. 29, 1919	425,000.00	.....	.....
Do.	Feb. 27, 1919	208,000.00	.....	.....
Do.	Mar. 27, 1919	171,000.00	.....	.....
Washington, Brandywine & Point Lookout (note).	July 6, 1918	50,000.00	Washington, Brandywine & Point Lookout R. R. Co. first mortgage 6 per cent bonds due 1920.	75,000.00
Waterloo, Cedar Falls & Northern (note). ¹	Mar. 1, 1920	500,000.00	Waterloo, Cedar Falls & Northern Ry. Co. general mortgage 7 per cent bonds due 1950.	625,000.00
Western Maryland (note).	Aug. 30, 1918	113,000.00	Western Maryland R. R. Co. first mortgage 4 per cent bonds due 1952.	67,000.00
Do.	Jan. 31, 1919	195,000.00	Western Maryland R. R. Co. first and refunding 5 per cent bonds due 1967.	140,000.00

¹ Maturity, Mar. 1, 1921.

Obligations of carriers and securities deposited by carriers held Aug. 1, 1921, pending final determination and settlement of accounts (maturity, demand; price, par; rate of interest, 6 per cent)—Continued.

Name of company.	Date.	Amount.	Collateral.	Par or face value.
Western Maryland (note).	July 5, 1919	\$2,000,000.00	Western Maryland R. R. Co. first and refunding 5 per cent bonds due 1967.	\$2,857,000.00
Wheeling & Lake Erie (note).	Dec. 30, 1918	70,000.00	Wheeling & Lake Erie Ry. Co. refunding mortgage 5 per cent bonds, series "B," due 1966.	108,000.00
Do.....	Feb. 20, 1919	174,000.00	.....do.....	268,000.00
Do.....	Aug. 25, 1919	790,000.00	.....do.....	1,216,000.00
Winston-Salem South-bound (note).	Dec. 23, 1918	112,000.00		
Grand total.....		97,763,274.56		170,156,970.00

Senator LA FOLLETTE. What number of railroads have made final settlements, if you have it up to date, or substantially up to date?

Mr. DAVIS. Well, I thought I had that. About 85, Mr. Tracy, isn't it? Is that the number of individual roads with which we have settled?

Mr. TRACY. Approximately 100.

Senator LA FOLLETTE. If you will just supply that. You can supply that, of course?

Mr. DAVIS. I will say approximately 100. I think that is a little in excess of the settlements that have been finally made, though, but I will be glad to give you in this answer the number that have been settled with.

Senator LA FOLLETTE. Thank you very much. And the class of roads. State the class.

Mr. DAVIS. Yes, sir.

Senator LA FOLLETTE. And the percentage of the mileage that is involved; that is, I am taking your printed statement here and asking you to bring that paragraph down to date.

Mr. DAVIS. Well, I can answer that as of July 31, 1921.

Senator LA FOLLETTE. That is near enough.

Mr. DAVIS. And that is about near enough?

Senator LA FOLLETTE. Yes.

Mr. DAVIS. As of July 31, 1921, based upon a total mileage of roads under Federal control aggregating 241,194—171,046 miles of roads have filed their claims in final settlement, and this represents a percentage of 70.916 per cent, practically 71 per cent.

Senator LA FOLLETTE. What is the total amount of claims filed up to the present time?

Mr. DAVIS. The total amount of claims filed up to July 31, 1921, is \$785,966,673.27. That is such a big figure that I can be pardoned for not being able to distinguish the figures. I don't believe that should go in the record.

Senator LA FOLLETTE. I do not think you need to shrink from putting that in the record. I believe everybody is afflicted that way at this time, and particularly Congress. We do not distinguish between millions and billions in making appropriations.

Senator WATSON. You have reference to the House now, Senator.

Senator LA FOLLETTE. No, I have reference especially to the body of which I am a very humble member.

Senator MCLEAN. Leave out the railroads, Senator.

Senator LA FOLLETTE. Why?

Senator MCLEAN. I suppose because it is so long since they have had any money.

Senator LA FOLLETTE. They have had a very considerable sum out of the United States Treasury. Every time they ask for anything they get it from Congress.

Senator MCLEAN. Not in comparison with what they have lost.

Senator LA FOLLETTE. I think very much in excess. That is a question which will be fought out.

Senator MCLEAN. Yes; we can not settle it this morning.

Senator LA FOLLETTE. Well, it may never be fully settled, but we may approach a little nearer a settlement than we have.

Have you any means of knowing what claims may yet be filed?

Mr. DAVIS. I have no means of knowing except by judging what will happen in the future from what has occurred in the past, and if the remaining practically 30 per cent of claims are filed on the same theory as those already filed, the total amount of claims in final liquidation will be \$1,108,306,550.30.

Senator LA FOLLETTE. Do you find any variation in the character of these claims as they are being filed now compared with those that were filed early, in any respect?

Mr. DAVIS. Why, I would say no; not with any uniformity. Growing out of differences in the standard contract and growing out of differences of opinion that could arise in the matter of maintenance of way and structure and equipment and retirement, depreciation, replacement, a number of different theories have arisen and once in a while we find some comptroller of some railroad that has discovered a new formula, and again we find some railroads that have abandoned most of these fantastic formulas and have made their claims practically on the theory of the administration. I would say, while there is to some extent a general uniformity in the claims, there is the opportunity for individual endeavor that you would find in the large number of different kinds of people.

Senator LA FOLLETTE. Yes. In the statement which you submitted to the chairman of the Committee on Ways and Means of the House, on page 5, you state, about the middle of the page, that 44 of the roads settled with had claims amounting to \$96,821,801, and were allowed by you in final settlement \$42,000,000, or 43.68 per cent of the amount claimed.

Mr. DAVIS. Yes, sir.

Senator LA FOLLETTE. Now, as you get along further away from the time when the Government surrendered the roads, do you find that the administration is disallowing these claims at a larger or a less rate per cent upon the amount claimed? If there is any variation in that respect?

Mr. DAVIS. Senator, the Railroad Administration has adopted quite a definite and uniform rule as to settlement.

Senator LA FOLLETTE. I suppose so, upon such questions as are presented.

Mr. DAVIS. Generally speaking, we allow the corporations their compensation with the interest that is provided for in the standard rate.

Senator LA FOLLETTE. Yes.

Mr. DAVIS. In the matter of the material and supplies that is, as near as we can make it, an absolute mathematical check. In the disputed items provided for in what is known as the upkeep section of the standard rates, and it is the upkeep of this property that is the cost, in the matter of maintenance, repair, renewal, retirement, and depreciation, we try to match during the period of Federal control the amount of money that was expended during the test period, making a proper allowance for the difference in price or cost, using the words "price" or "cost" as synonymous, between Federal control and Federal operation, applying the rules as to these various items of the Interstate Commerce Commission which were in effect during the test period, and upon which the compensation of the carriers was fixed.

Senator LA FOLLETTE. Exactly.

Mr. DAVIS. Then as a conclusion I would say that there has been no variance in the method of settlement since the Railroad Administration commenced this question of this proposition of liquidation.

Senator LA FOLLETTE. Unless it should be upon some new formula presented, and then I suppose you have to deal with that when it comes up?

Mr. DAVIS. We don't recognize a new formula, Senator.

Senator LA FOLLETTE. Well, you would have to dispose of them.

Mr. DAVIS. Oh, yes; we refuse them.

Senator LA FOLLETTE. You would be able to put into your statement, General, the comparative expenditures for these years? You have it all worked out, of course, I take it, for 1914, 1915, 1916—

Mr. DAVIS. What do you mean?

Senator LA FOLLETTE. What they expended for maintenance of way, for instance.

Mr. DAVIS. Do you mean these cases that we have settled?

Senator LA FOLLETTE. Well, yes; I suppose you have it in the cases that you settled, have you not?

Mr. DAVIS. Of course, it would be an interminable amount of work to take up.

Senator LA FOLLETTE. Well, you have it in the cases that you have settled?

Mr. DAVIS. Oh, yes; we have in the cases that we have settled. I didn't get your question, sir.

Senator LA FOLLETTE. Well, I would like to secure—I do not know whether the committee would be interested in it, and I would not care to lumber up the record of the committee if they were not interested in it, but I would like to secure for myself,

if I could, the relation of the expenditure by the railroads themselves for these various purposes upon their property during the years—

Mr. DAVIS (interposing). The test period?

Senator LA FOLLETTE. Yes, call it the test period, as compared with what the Government expended. Now, I suppose you worked that all out in the cases of the roads with which you have settled, and have it all tabulated, have you not?

Mr. DAVIS. Well, in each of the settlements that we have made, Senator, we have, subject to the inspection of any one in authority desiring it, and I would consider a Senator having that right, which anybody is welcome to examine. I would seriously object to putting an itemized statement of that kind into a public record that would be distributed, because I think it would very seriously embarrass and retard future settlements. We have adopted a plan of what we call a lump settlement, after we have fully discussed with the carriers, and while our accounts show just exactly what we allowed, we never advised the carriers, for the reason that they would compare settlements with each other, and I think it would be against public interest at this time to make a public statement of those items, although there is nothing that the Railroad Administration desires to conceal, except to aid us in future settlements. And if you care to come down and spend a day with me we will take up some typical cases, and I will go through them with you and give you all the information that I can. Or I would be very glad to give any representative of yours that opportunity if it was for your benefit, but I would not want to make a public statement of this kind of these settlements, for the reasons suggested.

Senator LA FOLLETTE. That is, you think you could trade better with the railroads in the future for making settlements if you do not disclose that?

Mr. DAVIS. I know I can, because each railroad would come in and say, "Why, you allowed this road so and so, why don't you allow us that?" And it becomes, then, a wrangle of comparisons of settlements. We have tried to avoid that.

Senator LA FOLLETTE. Chairman Clark has furnished me with a printed document prepared by the Interstate Commerce Commission, which gives the information which I want in order to make the comparisons which I have in mind, going back over the test period, and informs me that they can carry that as far back as I care to have it carried. So it will not be necessary for me to trouble you about that.

Mr. DAVIS. Very well, sir.

Senator LA FOLLETTE. I called on the statistical department of the Interstate Commerce Commission yesterday for this very information, and I was not able—as far as we arrive at an understanding over the telephone—to get what I wanted yesterday. That is the reason I was asking Gen. Davis for it. But I am very glad to know that I can get it there.

Senator TOWNSEND (presiding). Well, that is a document that I think, perhaps, had better go into the record so we will all understand that, so far as it relates to this matter.

Senator LA FOLLETTE. Yes; I shall be glad to have it go in.

Senator KELLOGG. Can not we be furnished with additional copies so that it will not be necessary to place it in the record?

Senator LA FOLLETTE. Yes; I should be glad to have it in the record. I would be glad, indeed. I think it should go into the record.

Senator TOWNSEND (presiding). Is there anything about that that should not be printed?

Mr. CLARK. Not at all. It is a public document.

Senator TOWNSEND (presiding). It is now a public document?

Mr. CLARK. Oh, yes.

Senator TOWNSEND (presiding). Then it will not go into the record, because it is a public document, and everybody can see it.

Senator LA FOLLETTE. In answer to a question submitted by one of the members of the committee, Gen. Davis, you spoke of securities which you have on hand, as I understand, and said that some of the securities could, you believed, under existing conditions, be quite readily sold. You have securities which have been taken, then, I judge from that reply, which could not be readily sold at this time?

Mr. DAVIS. Yes, sir; there are securities taken during the period of Federal control, Senator, and not subsequent, unless the subsequent taking was in closing up a loan that was made during the period of Federal control, that would probably not be readily salable on the market.

Senator LA FOLLETTE. What proportion of the securities do you think would not be readily salable?

Mr. DAVIS. Well, if you will look at the statement that I made to Chairman Good as a basis, page 18, you will find a general list of the securities that the Railroad Administration held as of the 1st of May. Now I could not be accurate as to the scrutiny

that an investor would make as to these securities, but in a general way the equipment trust obligations, aggregating \$310,073,100, ought to be considered first-class railroad security.

The bond item, \$26,695,000, represents the bonds of the Boston & Maine Railroad. I can not give you the details of the transaction out of which those bonds grew without looking the matter up. It was made in the early part of the Railroad Administration, during the period of the war, and as I understand it, was assisting the Boston & Maine in a reorganization. Those are first mortgage bonds. Whether in the present condition of the general group of New England roads they would be considered first class security I am not sufficiently advised.

There is a receiver's certificate, \$1,400,000, the International & Great Northern. That is a transaction that occurred during the period of the war, of which I have no personal knowledge, but it was a purchase by the Railroad Administration of \$1,400,000 of receiver's certificates of this railroad, and I think it was essential, it was considered essential, to keep that road in operation.

There are different notes aggregating \$92,762,038. Some of those notes, or a large part of those notes, are represented by the obligations of the New Haven Railroad, which grows out of a transaction early in the period of Federal control, early during the war, and I am not familiar with the details, but was, as I take it, assumed by the then existing director general, who was Mr. McAdoo, to be necessary to tide the New Haven Railroad over and keep it operating during the period of the war.

There are some other notes, some smaller amounts of notes that are due.

Senator LA FOLLETTE. What per cent, about, of those notes, are New Haven notes; that is, what proportion of the \$92,000,000? Perhaps you can state exactly.

Mr. DAVIS. \$60,000,000.

Senator POINDEXTER. Are those first-mortgage notes?

Mr. DAVIS. They are promissory notes secured by the first-mortgage bonds of the New Haven Road, taken at 85 per cent. Six per cent obligations.

Senator LA FOLLETTE. Do you know what the market quotation of those bonds is to-day?

Mr. DAVIS. I might say, Senator, that these various transactions were consummated, as I understand it, under sections 6 and 7 of the Federal control act, which was intended, if I understand the act right, to authorize the Railroad Administration to give a helping hand to railroad companies that were in trouble during the period of the war so that they could be maintained in operating conditions.

Senator LA FOLLETTE. Yes. Really the responsibility for that matter rests with Congress. They made provision in the Federal control act. I remember when the subject was up under discussion before the committee that the New Haven Railroad was referred to, and also the Boston & Maine.

Mr. DAVIS. I will have to let you determine the responsibility, Senator. I can not undertake that.

Senator MCLEAN. Has the interest been paid on those securities?

Mr. DAVIS. Yes, sir. The New Haven road is not in default at present. It has been paid currently.

Senator LA FOLLETTE. Now, what proportion of the \$26,000,000 of bonds—perhaps you stated?

Mr. DAVIS. That is all Boston & Maine bonds.

Senator LA FOLLETTE. Those are all Boston & Maine bonds?

Mr. DAVIS. Yes.

Senator LA FOLLETTE. And what is the character of those bonds?

Mr. DAVIS. Well, they are a mortgage bond growing out of a reorganization and a receivership. Now, just what lien they had, whether it was a first lien or what lien they had, I can not tell you, sir. It is a long, complicated proposition that I have not had occasion to examine.

Senator LA FOLLETTE. And you do not know much about the values of those bonds?

Mr. DAVIS. It is something that I have had nothing to do with.

Senator LA FOLLETTE. And you have not any information upon which you could base a judgment as to their value?

Mr. DAVIS. No, sir; I do not know what they are quoted at.

Senator LA FOLLETTE. Now, you had referred to the third item in that list, the receivers' certificates, and had explained that.

Mr. DAVIS. Well, the International & Great Northern is a southern road. It is a Texas road; it is in the hands of a receiver, and at some time early in the railroad control the administration took \$1,400,000 of receiver's certificates, bought them, and, being receiver's certificates, they are lien ahead of any mortgage. And I am not familiar with the foreclosure proceedings, but the road is still in the hands of a receiver, and I suppose that when the receivership is wound up and the property

reorganized this will be paid. But I can not tell you the details about it, because I have not had occasion to examine that.

Senator LA FOLLETTE. Now, the equipment trust obligations. That is the last item in that list.

Mr. DAVIS. The equipment trust obligations grow out of a very large purchase of equipment deemed necessary to the railroads generally during the period of Federal control. Covered 100,000 box cars and 2,000 locomotives. This equipment was ordered by the Railroad Administration under specific congressional authority. As the cars and locomotives were completed they were arbitrarily allocated by the Director General to the roads that he thought needed them. After some prolonged discussion between the administration and the railroads as to whether they needed them, and whether they should take them at what was considered a very expensive price, because labor and material were very high at this time, the railroads finally took from the Railroad Administration, took off the hands of the Railroad Administration, this entire equipment, and there was concluded what is known as an equipment trust agreement, and those \$310,000,000 of trust certificates represent the price at which the Railroad Administration sold to the separate carriers this equipment. They are in negotiable form. They pay 6 per cent interest. They are payable one-fifteenth annually on the principal, and up to this time the annual payment due January 1 of this year was paid, and the current interest due July 1 was paid. They are supposed to be first-class negotiable securities.

Senator LA FOLLETTE. How was the figure of \$310,073,100 arrived at?

Mr. DAVIS. Well, there was a certain amount of equipment that was paid in cash, and the purchase price represents the entire cost to the Government, including overhead, so that the trust equipment and the cash that has been paid represents the entire outlay by the Government in the purchase of this equipment. In other words, we have not lost anything up to date on this equipment.

Senator LA FOLLETTE. They were sold to the railroads at the price which the Government had to pay for them?

Mr. DAVIS. Yes, sir; at the price which the Government had to pay for them.

Senator LA FOLLETTE. Yes; just the same as though the railroads had been in private hands and they had found it necessary to buy this equipment at that time when prices were high?

Mr. DAVIS. Yes, sir; and pay for it. You are right about that.

Senator LA FOLLETTE. Exactly. Perhaps you will remember, General, whether this statement was made a part of your testimony [referring to the printed statement prepared by the director general].

Mr. DAVIS. Yes, sir; it will be printed in full in my testimony.

Senator LA FOLLETTE. I believe that is all I care to ask the general, unless something should come to my attention later.

Senator TOWNSEND (presiding). Has anyone any other questions?

I think that is all, Mr. Davis. We are very much obliged to you.

Now, the question was brought up yesterday, and it has been urged upon me to-day, as to what hearings this committee will have upon this measure. I stated then that it was a matter for the committee to decide. I was not authorized to call any witnesses. I proceeded upon the theory that inasmuch as this was a measure that had originated in the administration, that I wanted to hear the Government's officials, or at least Mr. Meyer and Mr. Davis, and I wanted to hear what they had to say upon this bill, and that was my only excuse for calling them. As all understand, Senator Cummins is not able to be here, and necessarily the duty fell upon me of proceeding with the consideration of the measure, and I am very desirous of following out the will of the committee in reference to this matter, and I don't want anybody to understand that I was attempting to control the actions of the committee in any respect. I did feel that inasmuch as this was a new measure I wanted to know what the Government's standpoint was and the reasons it had for presenting this proposition to the Congress. That was my only excuse for calling any witness.

Senator WATSON. Mr. Chairman, this being largely a committee matter, one that I think we ought to discuss among ourselves, as to the length of these hearings, I move an executive session of the committee in order that we may discuss that question.

Senator PITTMAN. Mr. Chairman, that motion is debatable, I assume. I do not want to make a speech.

Senator WATSON. Certainly.

Senator PITTMAN. I wanted to object to it, that is all. I want to object to it, because I want the matter of record, and I do not want any private record on it. I think it is absolutely for the benefit of this committee and for the Senate that we not only hear from the present Director General of the Railroads with regard to the condition of securities and the necessities of this bill, but that we should hear at

least from the former Director of the Railroad Administration, under whom most of these obligations arose.

Senator KELLOGG. Which former director?

Senator PITTMAN. Why, both of them, if we could reach them.

Senator KELLOGG. You know, one of them is in Europe now.

Senator PITTMAN. Well, then, we will take what we can get.

Senator KELLOGG. I shall object to calling Mr. McAdoo.

Senator TOWNSEND (presiding). Well, now, go ahead, Senator.

Senator KELLOGG. If we can vote on it at any time, I would just as soon vote on it now.

Senator TOWNSEND (presiding). The Senator has the floor.

Senator PITTMAN. Yes; I will be very brief. The present Director General of the Railroads has testified with reference to the origin of the indebtedness of the railroads to the Government and the indebtedness of the Government to the railroads, dealing with transactions prior to his connection, some of them, with the administration at all. In answer to a great many questions by members of the committee he has testified that they were matters that occurred before his connection with the Railroad Administration. Now, then, if we are going to have complete facts with regard to this matter, if it is the desire of the committee, in other words, to obtain all of the facts that the committee may consider material on this matter, rather than to have them dug out on the floor of the Senate in the form of ledgers and reports and things of that kind, which seems to delay matters much more than to have a hearing before the committee, it seems that we should have at least the man who was director general upon the institution of the proceedings that brought about the indebtedness that now requires the refunding in some form. And not only that, but I assume that the very object of referring this bill to the committee is to save the Senate the very time that we are taking up—that is, taking up in a segregating and correlating of the various facts. I am a new member on the committee. I know very little about railroad matters.

Senator MCLEAN. Is Mr. McAdoo opposed to this legislation?

Senator PITTMAN. I really do not know. I am not opposed to it at the present time, but I know very little about it. I am trying my best to ascertain facts enough upon which to base an opinion. And if this bill accomplishes a good purpose I am going to vote for it.

Now there are probably other members of this committee here who have been so long on this committee and have been so long in the study of these railroad problems that a great deal of this seems unnecessary to them. It does not to me. If, for instance, there is any one that can suggest amendments to this bill that will improve it, that will convince me that they can improve it, I would like to vote for those amendments. But I do not know.

Of course if the other members of the committee do not desire any advice on the matter, or any further evidence, so far as I am concerned, why I can realize that they would not want to hold up this committee just for the purpose of informing me. But I think that it would save time if we would thresh out evidence and opinions here before this committee rather than on the floor of the Senate, and it is perfectly apparent to all of us, it must be obvious to us, that if men who are supposed to be most familiar with this whole thing are excluded from giving their testimony here and their opinions, that it will be all rehashed over on the floor of the Senate, and there will not be the intelligence discrimination that we could have right here.

I do not believe that it would take up over a day, probably, or two days, to have Mr. McAdoo here and ask his opinion about this bill, ask his opinion about these indebtednesses and the method of settling them, about what he thinks will be due, what he thinks will be accomplished under this method of refunding and this method of financing the securities of the railroads. I think it would save time, and it would be a logical way to go at it. Of course, as I say, I am only a new member of the committee, and the others may find it entirely unnecessary. Of course if that is the case, I will have to try and dig out my information and form my opinions outside of the committee.

Senator KELLOGG. Mr. Chairman.

Senator TOWNSEND (presiding). Senator Kellogg.

Senator KELLOGG. Every record of every transaction between the Government and the railroads is down in the Railroad Administration, where Mr. McAdoo would have to get it if he got his information. Mr. McAdoo has not been in the Railroad Administration since December, 1918. He was only there about 10 months or 11 months. And Mr. Davis has got all the records, or the Interstate Commerce Commission have got them, as to every transaction. I have no objection to the committee asking any information. Mr. Hines is in Europe, and is not expected back before, I understand,

October, and no one of them can give us any information that can not be given right here in town. I do not see any reason for calling them.

Senator TOWNSEND (presiding). The question is on a motion of the Senator from Indiana as to going into executive session where these questions will be thrashed out if you go into executive session; that is the object of going into it, as I understood it.

Senator WATSON. That is right.

Senator TOWNSEND (presiding). And while this is not debatable, I would be glad to hear from anybody very briefly as to why we should not go into executive session.

Senator STANLEY. Mr. Chairman, I shall express myself very briefly as to why we should not express ourselves on a matter of this kind in executive session. It is a matter of public interest. I would say, Mr. Chairman, that if all the facts and data connected with this bill are like a multiplication table, or a word in the dictionary, and can be found by going into a book and ascertaining, or by going down here and looking at a file in the Railroad Administration department, or the Interstate Commerce Commission, then it has been a waste of time and money in calling anybody before this committee.

I think you were wise in calling the director general and calling the chairman of the War Finance Corporation, because, as I understand it, you wanted not only detailed information, but you wanted the benefit of the knowledge of these men of the great and technical propositions and intricate propositions involved in the legislation suggested by Senate bill 2337.

Now, when it comes to acquiring that information I am sure the chairman will not contend, and if he did I should certainly not accede to the proposition, that there is any superior quality of wisdom of patriotism or discretion or leadership in the Director General of Railroads over another, or in one administration over another. It would be most unfortunate, as I see it, if a matter purely of business like this should degenerate, as there was a tendency to have the transportation act of 1920 degenerate, and to be narrowed to a petty political issue. If this is to be an administration issue, and nobody but administration men to be allowed to speak, with the idea that wisdom will die with them, why, in my opinion, it would be most unfortunate for the country and most unfortunate for the pending legislation.

Senator KELLOGG. Is it your idea to hold this up here and have public hearings for weeks?

Senator STANLEY. No, sir; my idea is that we should know the opinions of those who have done exactly the same things with identically the same instrumentalities, with exactly the same opportunities for information, who, it appears, hold different points of view of this legislation, this whole matter.

Senator KELLOGG. Does he hold different opinions?

Senator STANLEY. I understand that he does not hold the same views.

Senator KELLOGG. Have you talked with him?

Senator STANLEY. No, sir; I have never talked with him five minutes of my life. I never agreed with his Government ownership. I voted for the transportation act of 1920 to take these roads out of his ownership, and I was aggressive and radical in my opposition to his alleged personal political ambitions. I hold no brief for Mr. McAdoo, but I do say that while I have never held a brief for him, I have never been his advocate or defender anywhere, either within my own party or anywhere else, I say that for justice "all places are temple and all seasons are summer," and I believe in fair play whether the man be my friend or my adversary, and it is known and well known that for weeks and for months we have had hearings on this and other bills, and nobody has hesitated, as nobody should have hesitated, to take a crack out of Mr. McAdoo, to go into the most elaborate explanations of the wastefulness or folly or sin of his operation of railroads. And then to say now that although he has been Director General of Railroads, and although we have had director generals here, we will not hear from Mr. McAdoo, is a proposition to which I will not subscribe.

Senator TOWNSEND (presiding). Well, this is my idea, Senator Stanley, about that. Is it expected that Mr. McAdoo or Mr. Hines, if they were here, could throw any light upon the question that is before us, namely, that of authorizing the sale of an amount, which is to be fixed by the committee, of securities already held by the Government, dispose of that in accordance with the provisions of law? I think we have put in a good deal here that is not relevant to the case at all, but there is no way of confining it. I do not feel like stopping the witnesses.

What I am interested in knowing is whether this is a proper thing for the Government to do, because it is not a complicated proposition; it is a simple question, and, as I said, I wanted to know what it was; that is why I called the witnesses that I did. I wanted to know what the situation of the Railroad Administration was, and in connection with the railroads, and whether this is a proper thing for the Government

to do. Now, if we could get any light on that subject, why I would be willing, perfectly willing to obtain it. But I do not care to hold up the hearings, as far as I am concerned, for the purpose of airing any differences or promoting some theories as to what has been done or some notions of what has been done. What has been done has been done. This is a question now before us of determining whether this bill should be passed or not.

Senator STANLEY. I heartily approve, Mr. Chairman, of the action of the chairman, I wish you to distinctly understand. I think he did exactly right. If I had been chairman of the committee I should have done exactly what you have done up to this time. I would have called both of the heads of these departments who have the carrying out of this bill, to get their opinion on the propriety of imposing this obligation upon them, and to find out just exactly how they were going to discharge it. I can not conceive how you could do anything else. I think if you had reported this bill without having heard from them you would have been guilty of carelessness and folly. I believe you are right in throwing this light upon it. I simply object to squelching it at this time, to scuffing it out at this time, or I object to an idea that light can only come from one direction and from one source.

Now there is a difference of opinion, as I understand it, and we want to get that opinion. A slight difference of opinion has been expressed by the two witnesses, perhaps. But at any rate, I have not yet ascertained from the witnesses who have been before this committee, and whom I have heard, just exactly the amount that is owing, or the method of the operation after it is turned over. There is one thing that is certain, that this \$500,000,000 or more—nobody seems to know how much or how much less; it would depend upon the discretion of the Director General—that is collected from the sale of these securities, will not be converted back into the Treasury as moneys ordinarily collected are, but it is impressed with a peculiar trust, and it is to be spent in a certain way. That may be all right.

There is much in this bill that appeals to me. I realize that the railroads do need assistance at this time, and I voted for this bill, and it strikes me that these securities ought to be made negotiable and ought to be marketed and ought to be converted into money, probably. There is much in this bill that appeals to me. I am not speaking in opposition of this bill. I am speaking as one who wants to keep this bill out of politics and who wants all the light that he can get, and you find if you take pictures of the same object at two different angles and coalesce them you get it into bas-relief. The courts are predicated upon the idea that you must hear the two sides of every case in order to reach an accurate judgment, and I believe that any committee can come nearer determining the truth, if there is difference of opinion among men having the same opportunity to form opinions, by getting the opinions of both, than by having an ex parte hearing here and by giving it out to the country that we do not agree with the people we call.

Senator WATSON. Mr. Chairman, this discussion is quite apart from the motion I made. I did not make a motion that we should not hear Mr. McAdoo, or that we should hear him. My motion was that we go into executive session as a committee in order to determine what our procedure should be. I have always believed that hearings, when we had them, should be published, but, likewise, I have believed that a committee as a committee should formulate its plan of procedure. I do not say that we should not hear Mr. McAdoo. My motion does not imply that conclusion. And all I wanted to do was that the committee as a committee should determine this policy. If we want to hear Mr. McAdoo or anybody else, well and good. What I wanted to do is that the members of the committee, as a committee, around the table should determine the future policy of the committee. That is what I have in mind.

Senator PRRTMAN. What do we gain, Senator Watson, by going into the executive session? Is there anything that would hurt the Government by discussing it now?

Senator WATSON. I think we would gain a great deal. It is all being discussed quite as much, and, so far as I am concerned, inasmuch as this discussion has gone on, why I am entirely willing to withdraw the motion and permit the discussion to proceed in the open, because it is being discussed anyhow.

Senator KELLOGG. Well, is there any motion?

Senator WATSON. No; I have withdrawn that motion now.

Senator LA FOLLETTE. I am very glad that the Senator has withdrawn his motion. I think, Mr. Chairman, that matters of this sort are of the most vital concern to the people and should be discussed in public. Indeed, I believe that all the proceedings of our committees should be open to the public.

Now, this legislation is proposed and this committee was called to meet, and without taking any formal action as to hearings, at the first meeting of the committee on the bill the testimony of Mr. Meyer, the director or manager of the War Finance Corporation, was taken. And his opinion was taken as to many matters connected

with this legislation. He did not testify just as to records and facts, but he entered the field of opinion, opinion as to marketing securities, opinion as to the condition of these railroads. He stated that some of the railroads were sorely in need of funds. He referred to some of the railroads as insolvent—not by name.

I find from his testimony, in order to show that the railroads were sorely pressed for funds, and that therefore this legislation was very important to them, he cited many cases where the equipment companies had performed work for the railroads; that is, where the railroads had sent out their rolling stock to be repaired and portions of it to be constructed. And he cited a number of cases where the railroads had been unable to pay for the work that they had had done upon their equipment by these equipment companies, and that a certain percentage of the work performed by one equipment company had been deferred a certain period of time. And a certain other percentage had been deferred much longer on account of the stress of the financial resources of the railroad companies, and there was a page or two of his testimony upon that proposition.

Now right on that point, Mr. Chairman, the Interstate Commerce Commission has been taking testimony to see whether the railroad companies have paid extravagant prices for repairs and construction or not. If they have had their work done by outside companies, in which many of the officials of the railroads are directly interested, and have had equipment repaired at 400 and 500 per cent greater cost than was necessary, I think that is a material thing for this committee to consider in determining the resources of these railroads and their need at this time to have this credit of the National Government put at their disposal.

I undertake to say that if that testimony can be laid before this committee, it will show some very startling things. It will show that right at the time that these railroad companies claimed in their testimony before the Interstate Commerce Commission to be embarrassed for money, that they were increasing their own salaries enormously. I cite one instance. An investigation was being conducted with regard to the New York Central Railroad Co. They made the statement that they had discharged a large number of men because of shortage of funds from operating revenues. The lawyer representing the Interstate Commerce Commission called for the minutes of the directors' meetings of the New York Central Railroad for the months of September, October, and November. The New York Central postponed furnishing those records. They were called for from day to day, and the statement made by the attorney that they would show that the testimony that had been given was untrue; and finally, rather than produce those records of their meetings to show what their inside financial operations had been, they had stricken from the record the testimony showing that they had been in financial stress.

And I undertake to say that it will appear from record evidence, if we go into this matter fully, that the New York Central, after having put up the claim that they were not getting sufficient revenues to take care of the operations of their roads, were right at that time adding to the salary of President Smith \$25,000—raising it from \$75,000 to \$100,000 a year—and the salaries of all the other salaried men ranging from \$5,000 to \$25,000 increase.

I undertake to say, Mr. Chairman, and I think it is a pertinent matter for this committee to go into, that the executives of the railroad companies since the roads were returned have squandered their resources instead of conserving them, and after having secured concession from the Government they are now pressing a demand for an extension of the credit of this Government to them to relieve their financial distress, which, I say, the record of their management of the roads should not commend to the further favor of this Government.

Mr. Chairman, I introduced a letter of request yesterday that Director General McAdoo should be heard. He was Secretary of the Treasury for eight years; he conducted the largest financial operations of this Government in all its history, or in the history of any Government of the world, and was director general for nearly a year. His connection with the Treasury Department of the United States as its head for a period of eight years would be presumed by anyone to enable him to express opinions of value concerning Government finances and economic and financial questions.

It seemed to me that if the opinion of Mr. Meyer was taken as to the advisability and necessity of this legislation, that the opinion of Mr. McAdoo might be of value, and I presented that letter. I also felt that the opinion of Mr. Hines would be exceedingly valuable. I talked with former Secretary of the Treasury, Mr. Glass, yesterday and told him that I had presented to this committee a letter requesting that Mr. McAdoo be invited to appear as a witness before this committee, and asked him if he would communicate with former Secretary McAdoo and ascertain if he would be willing to appear before the committee, and if he had views upon this legislation.

I was informed by Mr. Glass yesterday that if Mr. McAdoo were invited he would be very glad to appear, and that he had opinions which he would not only be willing but glad to express to this committee upon this legislation.

I took the liberty last night of sending a cablegram to Mr. Hines and asked him when and how early his testimony might be available to this committee if it desired to take his testimony and I asked him to cable me his reply. I have not heard from him. I expect to hear from him within the next 24 or 48 hours at the outside.

Now I desire, Mr. Chairman, as a member of this committee, to have this matter fully investigated by the committee in order that we may pass upon it with a full knowledge of all the facts. I shall file with the committee a request to take testimony with respect to the financial condition of these roads, and the question of the manner in which they have been conducting their business since the roads came back into their possession. I believe that testimony will show that they are not today in a position to ask further Government concessions or credit to enable them to conduct their roads properly. Now, if that testimony can be taken here I think that it will furnish very valuable information to the committee. If it is not taken here it will compel its production in the Senate when we come to debate this matter, and I think here is the place where it ought to be presented, where there is latitude for the examination of witnesses and the cross-examination of witnesses in testing out this whole thing in a proper and fit way.

Senator TOWNSEND (presiding). Has the Senator any idea as to when his program could be completed if we were to go into it?

Senator LA FOLLETTE. Why, I think in a very few days, perhaps in a week we could take all of this testimony. Now, with respect to Mr. Hines, I will be advised, I trust, by to-morrow, and I will inform the committee just as quickly as I hear from him.

Since this committee has been in session Mr. McAdoo called me on the long distance telephone to say that if the committee desired him to appear and he was requested to appear—he did not want to thrust his opinions upon the committee—he could appear here certainly by Monday morning.

Senator KELLOGG. Mr. Chairman, so far as the general investigation of railroad situations is concerned, this committee is investigating that, and spent nearly two months, I think, taking testimony, and has not completed it, and it will evidently take several months more going into the whole railroad situation. Manifestly there is no use of doing it twice. This committee on this bill does not need to go over what we have gone over, and the testimony is printed and we are going to take more testimony, as I understand it.

Senator LA FOLLETTE. Now, right on that point I want to say just this. This committee upon the Cummings resolution began an investigation here on about June the 10th of the railroad situation. And they took the testimony, Mr. Chairman, of the railroads, in which they laid the foundation for their claims against the Government. In other words, it gave the railroads a full public hearing on their side of this case, with an organized publicity bureau back of it that sent out daily bulletins putting up their side of the case, to every newspaper office in the United States. It was a campaign to create public opinion that would sustain the large demands that they were to press upon this Government for financial aid. And when their case had been about completed here before this committee, or at least after some two or three months had been given to hearing their side of the case, a recess was taken, and opposition to their presentation of facts has never been heard.

Senator MCLEAN. But they were subject to cross-examination.

Senator LA FOLLETTE. They were subject to cross-examination, but the Senator from Connecticut knows full well that when complicated financial statements are presented here, the witnesses not examined as they are in court by question and answer, instead well and carefully constructed briefs are presented, complicated in their terms, prepared by masters of accounting and finance, involving large assemblages of tables, the Senator, as a lawyer, knows that no one, right on the heels of a presentation of that sort, can conduct an examination that is not a waste of time of the committee, and that no valuable results can be obtained from a cross-examination at the time. It is necessary to make a study of that record. I have been trying to do it, and I hope to be able, when this committee assembles again, to subject Mr. Kruttschnitt and some of these other gentlemen to as good a cross-examination as I can make, after studying their involved, technical statements. And I say that as a member of this committee, with an average experience of Members of the Senate in dealing with questions of this character, that I have had to have, in making a study of their statements, the assistance of accountants and the assistance of men versed in railroad affairs.

Senator MCLEAN. Now, take for instance the instance which you have mentioned, Senator, of the misappropriation of funds by the New York Central, would you expect to get any light on that subject from Mr. McAdoo or Mr. Hines?

Senator LA FOLLETTE. No; I did not refer to that in connection with their testimony. I expect to get some light on that subject from the files of the Interstate Commerce Commission, and by putting upon the witness stand the attorney representing the commission who conducted the hearings, which would disclose the nefarious character of railroad financing under its present management, and in that way save the time of the committee, and have brought to the attention of the committee just exactly what the records will show from the admissions of the railroad witnesses themselves.

Senator WATSON. Well, suppose all that were true, Senator, what light would that throw on this measure, this particular measure?

Senator LA FOLLETTE. I think that has an important bearing upon the policy that this committee of the United States Senate and Congress is to adopt in taxing further the bounty of this Government for these railroads.

Senator STANLEY. I would like to ask the Senator one question: Suppose this were a claim to be adjudicated in a court of justice, and not a claim for bounty or gratuity on the part of the Federal Government.

Senator WATSON. That is neither a bounty nor a gratuity.

Senator STANLEY (continuing). And the Senator from Connecticut were a final judge, would you be prepared to pass judgment for or against the railroad after the railroad had introduced its evidence, and without hearing witnesses upon the other side, upon the ground that the defendant, or the plaintiff, as the case may be, had the right to cross-examine the witnesses that the other fellow introduced?

Senator MCLEAN. Well, Senator, I had supposed until Senator La Follette had made his statement, that this bill was to be opposed on the ground of frauds perpetrated by the railroads.

Senator STANLEY. Oh, I do not allege any frauds. I said, Senator, so that you may understand: If you were a judge instead of a Senator, and the railroads were making a claim against a private citizen, or against some other organization, or against the Government itself, and you were sitting as a judge and not as a Senator, and after the railroad had made its case in court the other side to the controversy, having the right to cross-examine, would you feel justified in closing the case there and saying to the opposing party, "You had a right to cross-examine the witnesses. I will pass judgment?"

Senator MCLEAN. Well, I will say to the Senator that you have not followed these hearings; I had supposed that the present director general had all the facts, had a full record of everything that would be of benefit to this committee.

Senator STANLEY. Oh, we are speaking now, Mr. Senator, on the hearings on the general situation; Senator La Follette is speaking about that. It is concerning the general hearings that the Senator made the observation.

Senator MCLEAN. Any court of review would have a record that would be quite complete and accurate. Now to go outside of the record and get the views of Mr. McAdoo or somebody that does not know as much about the record as the present director general, if you want to get his opinion as to certain things, why it seems to me that you are opening up a very wide field, that is all, Senator. I do not know, then, when you can expect to close these hearings.

Senator STANLEY. Oh, I want to see them closed very quickly.

Senator MCLEAN. If there is anything that the record does not disclose that you gentlemen want, why you certainly would be entitled to it, no matter how much time it takes.

Senator STANLEY. Well, I want to get the opinion of those who are qualified to give an opinion as to the propriety of this legislation.

Senator MCLEAN. It has not been suggested here that there was anything absent from the record except somebody's opinion as to the policy of this legislation.

Senator LA FOLLETTE. Do you think you would save time, Senator, by taking it up on the floor and having this testimony read page by page into the record?

Senator MCLEAN. I am not so innocent, Senator, as to assume that we are going to save any time on this legislation, no matter how it is conducted.

Senator LA FOLLETTE. I think we can save time on it.

Senator MCLEAN. If there is any merit in it, why there is responsibility somewhere to see that it progresses.

Senator WATSON. That is the point. The committee is charged with responsibility. This measure is before us. The facts are here. What knowledge Mr. McAdoo may or may not have of the past will not throw any light on the present situation. And while he was acting as the railroad director he was at the head of a half a dozen of the other

great functions of Government and instrumentalities of government at that time, and if the Senators will get the testimony that Mr. McAdoo gave, the last testimony, the last time he appeared before this committee as the Director General, they will see that he was not able to answer a very great many of the questions that were then asked him, because his duties had been so diverse and so multitudinous that he simply did not have the time to give to the railroad directorship the study that it required.

He did not go into the question. And if you will recall, the only thing in the world he had to offer—and I asked him the question myself, "Whether or not you have any plan to suggest as to how these railroads shall be turned back; if you have any plan to suggest as to the future financing?"—he said, "I haven't a thing to suggest except the continuance of Government operation for the next five years." Now, I thought we were measurably satisfied in our own minds with the results of Government operation for 26 months, and that we did not need five years more of it, and that was the one policy he had to suggest.

Now, Mr. McAdoo has been out of this office for all these months, and has not come in contact at all with the measures of the settlements with the railroads, and I feel that for us to send out and bring Mr. McAdoo in here in order to tell us what to do on this question that these men are familiar with and he is not is an absolute waste of time.

Now, of course, these Senators and any Senators can take up the time on the floor but that ought not to deter this committee from discharging its manifest duty, in my judgment, and I think we should either report this bill or decline to report it when we have a quorum here. We have not a quorum here now, but as soon as we get a quorum I think it is our duty to report it or decline to report it, and if we can not report it, let us go to something else.

The railroads of the country require this relief. Last year the great majority of them earned less than operating expenses. With \$62,000,000 on the whole earned by all the railroads as against \$900,000,000 a year for the test period. That tells the story whether the assets have been squandered and the receipts dissipated, and those questions are entirely apart from financing the railroads at this time with the view of establishing stability of the industrial situation in the United States, and therefore I think that our duty is quite manifest, that we shall, when we get a quorum, go on and come to a conclusion as to whether or not this bill shall be reported. And so far as I am concerned there will be no further hearing.

Senator PRUITT. Mr. Chairman, I move you that the chairman be requested to invite former Secretary of the Treasury and Director General of the Railroads McAdoo to appear before this committee on Monday morning at 10 o'clock and answer such questions as the committee may see fit to ask him, or members thereof, touching the bill now pending before this committee.

Senator WATSON. And on that I demand the roll call.

Senator TOWNSEND (presiding). Well, now, is the committee ready to concede that there is a quorum present?

Senator KELLOGG. The motion has been made. Let us vote on it.

Senator WATSON. Only for the purpose of determining policy. We can not determine conclusions, we can not report a bill, because the Senate would not receive it if anybody would object to it.

Senator TOWNSEND (presiding). Senator Smith has been here, but he is not here now. I have been requested by Senator Myers to vote for him on all occasions; he submitted that in writing, but I would not like to do that on questions of this kind when he is not present. I think Senator Smith is in favor of closing the hearings just as soon as possible, but I can not vote him. He is not here. Now it requires nine for an actual quorum. I do not know whether the rule prevails in this committee that seven may constitute a quorum.

Senator WATSON. I think only for the purpose of hearings, Mr. Chairman.

Senator TOWNSEND (presiding). That is my recollection.

Senator WATSON. For the purpose of having a hearing, but not for the prosecution of business.

Senator TOWNSEND (presiding). If there is no objection, why I would be willing to put the motion, but I would hate to put a motion that would be a vain thing if it was ever questioned that we did not have a quorum when we took any vital action on the part of the committee.

Senator POINDEXTER. Well, what is the language of the rule as to seven constituting a quorum for certain purposes?

Senator L.A. FOLLETTE. Well, that is a resolution that has been heretofore adopted by this committee at some early session during each Congress, when it has been adopted at all. Now whether that resolution has been adopted during this present Congress I am not certain.

Senator TOWNSEND (presiding). I do not know. I am ignorant of that. It has not been when I have been present.

Senator KELLOGG. I know we reported one bill to the Senate where we did not have a quorum of the committee present, and I moved the Senate to send the bill back, and it was done on a point of order on the ground that there was not a quorum present. That was on reporting a bill. That was some two or three years ago.

Senator WATSON. My recollection is that seven members constitute a quorum here for the purpose of having hearings, but not for other purposes.

Senator TOWNSEND (presiding). I think that is practically so. It is not quite that. It is something in reference to reporting a bill, where a majority of a quorum vote favorably. For instance, nine is a regular quorum of this committee. If five men were to vote favorably to report a bill when seven were present, I think it used to be the rule of this committee, as I recollect it, that that would constitute a sufficient number. I think it is the rule of our committee on Post Offices and Post Roads. It is a general rule in the Senate that a majority must be present, but a majority of a quorum can report a bill.

Senator LA FOLLETTE. I think Senator Watson's statement is correct.

Senator PITTMAN. Then my motion is probably in order.

Senator STANLEY. The motion would be in order, anyway, unless the point of a quorum is made. The only way to ascertain is to call the roll.

Senator LA FOLLETTE. I think in view of the controversy that would arise concerning this matter, that before any definite action is taken we ought to have a quorum.

Senator KELLOGG. I do not raise any objection to the committee adjourning and getting a quorum at all, so far as I am concerned. Do just as you please.

Senator TOWNSEND (presiding). This is what I had thought, and I want to submit it to the committee. I would like to have a committee meeting pretty soon for the purpose of considering the bill by committee without hearings for a time, and see if there are not some things that we can do that will result in legislation without any radical differences of opinion between us. Now there are two or three amendments that could be made to this bill, in my judgment, which would answer a great many of the objections which have been urged against the bill here, and which I take it would be the opinion of any witnesses we might call. I am very much opposed now—believing as I do that action ought to be taken on this bill of some kind—to holding hearings here for the purpose of getting opinions of people outside whose opinions would not be worth very much to the members of the committee. If there are any facts relating to this bill that lie with the Railroad Administration which we have not disclosed, I would like to know those facts. I would like to have them sent for and presented before the committee. If it is a question of policy as to what we ought to do, that is a question for the committee to determine, and eventually it must determine that question if we are going to have any legislation on it at all.

Senator KELLOGG. Well, when is it suggested? I am ready to adjourn to any time.

Senator TOWNSEND (presiding). Well, I want to know if that suggestion meets with your approval, that before final action is taken, that we proceed to consider the bill, to determine what light we now have upon it, and if there is anything there that is disclosed that we do not have, that we want light on we might be able to call before us on that particular point somebody that we would want to hear, for something we would want to hear. Now, I think that by a consideration of the bill in the committee we can thrash out a lot of these difficulties here that are, in my judgment, more imaginary than real, that when we get at it we can reach a conclusion that will practically command the support of the entire committee.

I repeat, that if in the course of the consideration of that bill the committee wants some particular light on some particular point we can call in immediately somebody to clear up that if we think he can clear it up. Now, if that were done I would like to have the whole committee here. I would like to have notice sent to them, and have them all here, if possible, and I do not believe that could be done before next Tuesday morning.

Senator KELLOGG. Tuesday. Why not Monday?

Senator TOWNSEND (presiding). Because they will not be back here. I have been trying to find out who will be here, and see if we can not get the committee together, but I find it can not be done.

Senator WATSON. Well, we can wire them, Mr. Chairman.

Senator MCLEAN. That will not do any good.

Senator TOWNSEND (presiding). We have now absent Senators Fernald, Freling, Huysen, Elkins, and Pomerene.

Senator MCLEAN. Senators Elkins is in Europe.

Senator KELLOGG. Senator Pomerene will be back Monday morning.

Senator TOWNSEND (presiding). Senator Myers will not be here, but he has left his vote and a letter explaining his views on this subject. Senator Underwood might be back here by Tuesday, and he is favorable to the legislation.

Senator KELLOGG. I do not think he is coming at all.

Senator TOWNSEND (presiding). Well, I think he might be induced to be here. I think if he knew the situation that he would be here to express his views on this subject. Now those Senators are not here. And even those who are here this morning are not always here. Of course we know what they have to do. There are three members of the Finance Committee on this committee, and they are interested in that great bill that is up now.

Senator KELLOGG. Well, Mr. Chairman, if we do not meet until Tuesday, and the Senate adjourns on Saturday, we might as well not meet at all.

Senator TOWNSEND (presiding). Well, if you want to make the suggestion, I will call the meeting for Monday morning, but I have been canvassing the situation, and I would like to get them here, if we can.

Senator McLEAN. Could we not get eight men here to-morrow?

Senator TOWNSEND (presiding). It takes nine.

Senator McLEAN. It takes nine. And then record the absentees, if it is desirable to get an expression of an opinion of the full committee without their presence.

Senator TOWNSEND (presiding). Well, we can get them this afternoon if you are ready to do that.

Senator McLEAN. Well, but we ought to have nine men. As I understand it at present, we can not.

Senator LA FOLLETTE. That is, you mean to report it?

Senator TOWNSEND (presiding). Senator Smith is not going to be back here until Tuesday.

Senator KELLOGG. Well, Mr. Chairman, fix your own time.

Senator TOWNSEND (presiding). Well, I want to do what the committee wants to do. I am trying to find out some way to take action.

Senator POINDEXTER. What are you going to do with this motion that is pending before the committee?

Senator WATSON. I understood that Senator La Follette objected, and it would take unanimous consent to go on. In order to determine that, I ask unanimous consent that the motion of Senator Pittman may be put at this time.

Senator LA FOLLETTE. Well, I do not think anything as important as that ought to be decided without a quorum.

Senator WATSON. Well, I understood you to object.

Senator LA FOLLETTE. Yes; I think that is a very important question.

Senator McLEAN. Can we not get a quorum to-morrow?

Senator TOWNSEND (presiding). Well, now, you think it over and see who will be here to-morrow.

Senator PITTMAN. Suppose we have a meeting this afternoon after lunch and see if we can not get a quorum.

Senator McLEAN. We have a very important meeting of the Committee on Finance this afternoon.

Senator WATSON. Yes; we have an important meeting of the Committee on Finance this afternoon with reference to certain things, voting on American valuation and on the dye embargo. Senator McLean and Senator La Follette and I will all three want to be in the Finance Committee, and important as this legislation is, we simply can not run away from that.

Senator McLEAN. Of course, if you agree on a certain minute to vote we can do it.

Senator Watson. Yes.

Senator PITTMAN. I would simply then like the committee to know, and I give notice, that whenever the committee does meet and as soon as it meets and has a quorum, that I will renew the motion that I make now.

Senator TOWNSEND (presiding). And you are not favorable to the committee proceeding to see if we can not adjust these matters as the matter now stands?

Senator PITTMAN. I prefer to have information before I consider the thing, rather than afterwards.

Senator TOWNSEND (presiding.) Perhaps if that is your idea we had better call up Senator Smith and see if he can be here.

Senator STANLEY. Mr. Chairman, I have not been on this committee but a short time, and I defer to the superior wisdom of those who have had more experience on this committee, but I rise for a sort of a parliamentary inquiry. Has it been the custom of this committee to determine about the merits of a bill and hold hearings afterwards, or have the hearings first and then apply the information to the bill afterwards?

Senator TOWNSEND (presiding). That is not my suggestion at all. My suggestion was that if the committee could get together we might be able to agree that we had all the information that we wanted on certain features of this bill. That we did not want any more evidence on those particular things. If we found that we did need further information, we could have that information presented.

Senator PITTMAN. Now, Mr. Chairman, as I understand the chairman, he has some suggested amendment to this bill. I assume that those amendments are for the purpose of better carrying out the purpose and making more definite the purpose of the act.

Senator TOWNSEND (presiding). Yes; and eliminating something that the act covers.

Senator PITTMAN. Yes. Now, of course, it is true, as a matter of fact, and we know that this act was drawn up by the War Finance Corporation employees or agents, or by the director of the railroads or somebody else. Now, nobody on this committee drew this bill, and the chairman can improve this bill, and I assume he can improve it by reason of his knowledge of conditions in finance and other things. Now, there has been some objection here to taking the financial opinion of anybody. As a matter of fact a financial matter is very largely a matter of opinion, as to whether or not the War Finance Corporation is in a better position to sell Government securities than the Railroad Administration, or some other form of commission, or the Treasury Department direct. It is bound to be a matter of opinion. It is going to be a matter of opinion as to whether the language in this bill accomplishes what the purpose of the bill is or not.

Senator MCLEAN. That is very true; but Mr. McAdoo's opinion might not be better than ex-Secretary Houston's, for instance.

Senator PITTMAN. It might not be better.

Senator LA FOLLETTE. It might be just as good as that of any witness that has testified up to the present time and it might be very different.

Senator STANLEY. If his opinion happens to be of no special value we have not lost much, but if it happens to be we have gained a great deal.

Senator MCLEAN. It opens the door.

Senator STANLEY. To open the door to light never hurts.

Senator PITTMAN. We have to find out whether a man is qualified or competent to give expert opinion.

Senator TOWNSEND (presiding). I have sent to see if Senator Smith can come over and he has left his office and they can not get him. He is going away this afternoon.

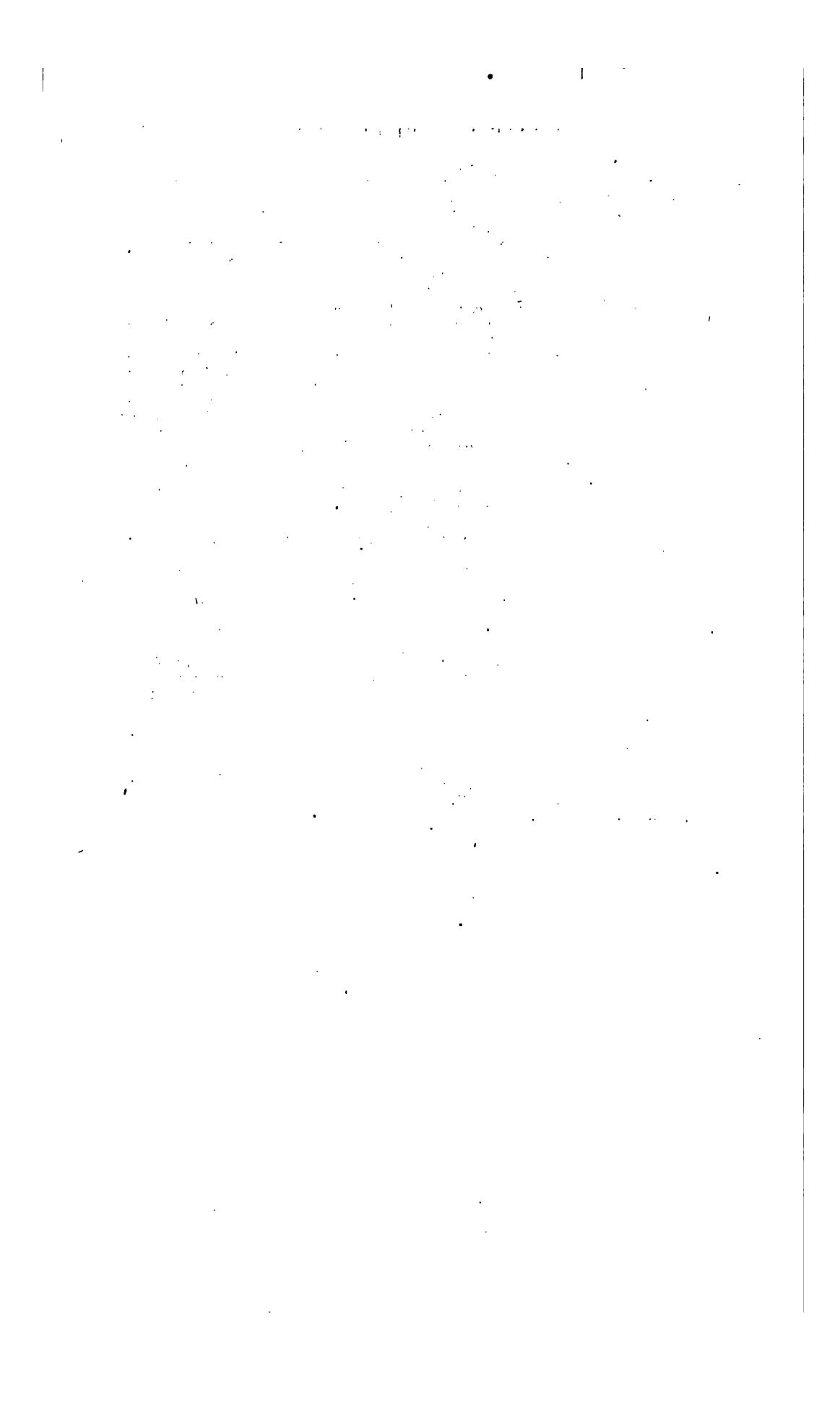
Senator WATSON. I move the committee adjourn until next Tuesday morning at 10 o'clock.

Senator LA FOLLETTE. Seconded.

Senator TOWNSEND (presiding). Those in favor of the motion will say "aye" opposed, "no." It is carried.

The committee will adjourn until next Tuesday morning at 10 o'clock.

(Whereupon, at 12.40 p. m., Friday, Aug. 12, 1921, an adjournment was taken until 10 o'clock a. m. Tuesday, Aug. 16, 1921.)



REFUNDING OF RAILROAD DEBT.

TUESDAY, AUGUST 16, 1921.

UNITED STATES SENATE,
COMMITTEE ON INTERSTATE COMMERCE,
Washington, D. C.

The committee met at 10 o'clock a. m., in room 410 Senate Office Building, Senator Charles E. Townsend, presiding.

Present: Senators Townsend (presiding), McLean, La Follette, Poindexter, Watson, Kellogg, Frelinghuysen, Pomerene, Stanley, and Pittman.

Senator LA FOLLETTE. Mr. Chairman, I believe a quorum is now present.

Senator TOWNSEND (presiding). Yes.

Senator LA FOLLETTE. I ask to have Mr. W. H. Johnson, vice president of the Mount Vernon Savings Bank and president of the International Association of Machinists, called. He desire to be heard upon this bill, and is present.

Senator WATSON. Mr. Chairman—have you finished your motion or statement, Senator La Follette?

Senator LA FOLLETTE. Not quite. I have several other witnesses—Mr. List, attorney for the Interstate Commerce Commission, with records of testimony that I wish to offer and which I think material to the inquiry which this committee has been conducting upon the bill under consideration.

Senator WATSON. Are you now through with your motion?

Senator LA FOLLETTE. I did not make a motion but made a request, and am going to follow it by a motion to invite Mr. McAdoo, unless Senator Pittman should renew his motion.

Senator PITTMAN. It is immaterial to me whether the motion now pending is considered, or you make the motion or I remake it.

Senator LA FOLLETTE. Your motion was to invite Mr. McAdoo. Do you withdraw it or is it still pending?

Senator PITTMAN. It was made and has not been acted upon. Therefore I assume it is pending.

Senator WATSON. As I understand the pending motion is to have Mr. McAdoo called before the committee, he to be followed by the several gentlemen Senator La Follette has suggested or will suggest be called. I now move as a substitute for that motion that we strike out clause I on page 2 of the bill, and as thus amended that the committee report the bill.

Senator KELLOGG. I second the substitute.

Senator PITTMAN. Is this a substitute for my motion?

Senator WATSON. Yes.

Senator LA FOLLETTE. I present my request to the acting chairman of the committee, who has been calling witnesses here, that witnesses who are present in the room be now called to testify.

Senator TOWNSEND (presiding). That, as I stated at the opening meeting, is for the committee to decide, whom they would call or would not call, and whether they would call anybody. It is immaterial to me as to how the question is put. Probably the substitute as offered would settle the question, although I should suggest that the Senator from Indiana (Mr. Watson) divide his substitute; in fact I should insist on a division of it, which substitute is to strike out clause (i), and vote on that proposition first, although his substitute included reporting the bill.

Senator WATSON. I will divide that proposition. I moved to strike out clause (i) solely at the request of the acting chairman.

Senator PITTMAN. I have a motion pending which should be acted upon.

Senator WATSON. I am willing to vote upon it but I want to end the whole question and end it by one motion if we can.

Senator LA FOLLETTE. You can not end the whole question by one motion.

Senator WATSON. We can do it so far as this committee is concerned.

Senator TOWNSEND (presiding). I will put the motion heretofore offered by the Senator from Nevada (Mr. Pittman). His motion is that the committee call Mr. McAdoo as a witness. Those in favor of that motion will signify it by raising the right hand.

Senator LA FOLLETTE. What is that motion?

Senator TOWNSEND (presiding). To call Mr. McAdoo.

Senator LA FOLLETTE. I ask for a roll call on that motion.

Senator POMERENE. The motion was made when I was not present. I do not know that I am advised as to the purpose of the motion.

Senator PITTMAN. May I state it?

Senator POMERENE. Let me finish my statement. If the purpose is to call Mr. McAdoo to discuss generally the railroad problem and the subject of Government operation—and I understand it is the intention of the committee to take that matter up at some future time and I would be very glad to hear him then, but if it is simply to call him in so far as his testimony may refer to this particular bill, I have a different view.

Senator PITTMAN. I will answer that question. My motion was this: That the chairman invite Mr. McAdoo to appear before the committee and answer such questions as the members of the committee may propound to him touching the bill now before the committee; nothing else whatever. And, as I stated the other day when you were not here, I desired such suggestions as he might be able to give us, at least for my own use and information. Mr. Davis, the present Director General of Railroads, testified not only with regard to certain facts in his possession but as to his opinion of the purpose of the bill and the effect of the bill. His testimony went into questions—in answer to questions propounded to him—of the best way for the Government to dispose of securities, the best way to relieve the Government of the burdens upon it by reason of the Railroad Administration, the best method of relieving the condition of the railroads at the present time. In other words, it was expert testimony with regard to financing lines. Also his testimony and the testimony of Mr. Meyer, president of the War Finance Corporation, dealt with facts and conditions that arose, some of them at least, during the administration of Mr. McAdoo as Director General of Railroads, and some things relating to the time when he was Secretary of the Treasury.

I want it distinctly understood that I am not making this motion for the purpose of delaying consideration of the bill. I want no such inference drawn. Neither do I want any inference to be drawn that I am fighting this bill. I am not fighting this bill, not at all, and I do not know that I ever will fight it—though I may be in favor of amending it. However, it is a very important matter. And I do not believe that the acting chairman of this committee, nor the other members of the committee, believe that we are going to get action on the bill before the recess. I do not see that that is probable, and therefore I do not believe if we should invite Mr. McAdoo to testify with regard to matters material to the consideration of the bill now before the committee—and, of course, it is within the power of the committee to restrict him to that character of testimony—that there would be any delay whatever. I think his testimony would furnish information that would be of value to some members of the committee and some members of the Senate when it comes time to consider it there. It was for that reason I made the motion. And I repeat, I do not believe any time is going to be saved at all by just reporting this bill to the Senate, where it may lie on the calendar for two or three months.

Senator KELLOGG. Nobody knows when we are going to adjourn, and if we do not adjourn I do not know why we should not take up the bill in the Senate. If we should call Mr. McAdoo it would reopen general hearings, and in that event we do not know when we would end them.

Senator PITTMAN. Senator Lodge has already offered a resolution for a recess to begin on Saturday.

Senator KELLOGG. Well, it will not be considered then.

Senator PITTMAN. I am very happy to hear the Senator say that.

Senator KELLOGG. The recess will not begin on Saturday anyway.

Senator LA FOLLETTE. I have just been informed that Mr. L. E. Sheppard, president of the Order of Railway Conductors, is present and asks, in the name of the four railroad brotherhoods, whom he is authorized to represent, be heard here upon this bill.

Senator KELLOGG. Mr. Chairman, I ask for a vote.

Senator TOWNSEND (presiding). Are you ready for the question?

Senator POMERENE. This is a vote upon Senator Pittman's motion, is it?

Senator TOWNSEND (presiding). Yes; to call Mr. McAdoo as a witness. The clerk will call the roll.

The roll was called and the vote announced as follows: Senator Frelinghuysen, no; Senator Kellogg, no; Senator La Follette, aye; Senator McLean, no; Senator Poindexter, no; Senator Pomerene, no; Senator Pittman, aye; Senator Stanley, aye; Senator Townsend, no; Senator Watson, no.

Senator TOWNSEND. The vote is 7 noes and 3 ayes. The motion is lost.

Senator LA FOLLETTE. Mr. Chairman, I move that Mr. W. H. Johnson, vice president of the Mount Vernon Savings Bank, and president of the International Association of Machinists, who is in attendance, be heard by the committee at this time.

Senator WATSON. Mr. Chairman, in order to obviate the necessity of voting on the hearing of 15 or 20 men that Senator La Follette might name, and I do not know how many he may wish to be heard—

Senator LA FOLLETTE (interposing). I was going to ask that Mr. Johnson, Mr. List, and Mr. Sheppard be heard. There are these three present that I would like very much to have heard.

Senator POMERENE. Do I understand that these three gentlemen are here now?

Senator LA FOLLETTE. Yes; they are here, and have come purposely to attend upon the hearing. They will be very brief, all except Mr. List. It would probably take some little time to put in his testimony, because he has taken the evidence of railway presidents and railway officers—

Senator POMERENE (interposing). Mr. List is the attorney for the Interstate Commerce Commission, as I understand, and has records taken by the commission bearing upon wastefulness of operation of railroads, and that they have not operated the transportation systems since they came back into the possession of their owners in compliance with the Esch-Cummins law; that they have wasted and squandered their resources, and therefore are not in a position to ask for further indulgence in the way of credits?

Senator LA FOLLETTE. A number of things along that line, being evidence taken by the commission.

Senator TOWNSEND. Senator La Follette, would that involve calling in the members of the Interstate Commerce Commission who instigated that investigation some time ago, as I understand?

Senator LA FOLLETTE. I do not think it would. All I desire to do is to get before this committee the testimony and facts which have already been secured by the Interstate Commerce Commission, and that testimony comes entirely from the railway executives themselves and their official staffs, or I think almost entirely from that source, testimony and data which bears upon the proposition to which I referred.

Senator TOWNSEND. As I understood it some time ago, though I have not talked to the members of the commission lately, they were not satisfied with the reports which had been circulated, or with some testimony, or with some part or parts of the testimony that had been taken, and were proceeding further to investigate some of the charges made, first, I believe, by a Member of the House from Alabama.

Senator LA FOLLETTE. If the chairman will permit me, they are proceeding upon an order which they themselves issued on their own motion, in January, I believe, and I think it was January 4, to conduct investigations.

Senator POMERENE. When you say "they," do you mean the Interstate Commerce Commission?

Senator LA FOLLETTE. Yes. And they sent out their attorneys, to New York and Chicago and to Pennsylvania, and they held hearings, and the record of the evidence taken—and I have it here this morning—is in charge of the attorney who conducted many of the examinations, and there are certain portions of that testimony I would like to offer.

Senator MCLEAN. Senator La Follette—

Senator LA FOLLETTE (interposing). Let me add on the point the chairman was making that more testimony would have to be taken or might have to be taken, that the attorney conducting the examination is here with the record of all the evidence. I think this committee is entirely competent to judge of the testimony which these railway executives and the members of their staffs have given. Indeed, it consists very largely of admissions they have made with respect to their expenditures of money.

Senator MCLEAN. Do I understand, Senator La Follette, that the returns furnished by the railroads to the Interstate Commerce Commission show a misappropriation of funds?

Senator LA FOLLETTE. My understanding of this matter is that many months ago, long before the Interstate Commerce Commission instituted its inquiry upon its own motion, the commission, or some members of the commission who were examining the returns made from time to time by the railroads, became interested or perhaps anxious as to some of the expenditures which were being reported and instituted inquiries by correspondence. I have seen some of the letters that passed between

railroad executives and the member or members of the commission who were assigned to examine the returns. The answers of the railway executives did not elicit the information desired by the commission, or at least the answers were unsatisfactory. Therefore the Interstate Commerce Commission, upon its own motion, as early, I think, as the 4th day of last January, set on foot, by an order which the commission issued, an investigation of this subject, and, proceeding under that order, they have taken the testimony to which I refer.

Senator McLEAN. Of course, if the returns themselves show a misappropriation of funds, the Interstate Commerce Commission, in conjunction with the Director General of Railroads, can take advantage of it in making settlements. If the returns do not show a misappropriation of funds, but frauds or whatever they may be are based upon indications in reports from the carriers, the carriers undoubtedly will want an opportunity to appear and meet any testimony which may have been brought out or explain any statements which may have been made.

Senator KELLOGG. That whole statement has been investigated by the Interstate Commerce Commission, and they have not completed it yet.

Senator McLEAN. That is what I was going to say. So it seems to me you would open up an inquiry here which would be of no benefit to anybody in the settlement of these claims. It is very important that this matter should be settled.

Senator TOWNSEND. Let us see if we understand the real issue before this committee now. My understanding of it is that this proposition is one to settle the accounts between the railroads and the Government, and—

Senator LA FOLLETTE (interposing). Do you mean this legislation?

Senator TOWNSEND. Yes. The Government holds securities taken under the law and originating under Government control; it holds securities against the railroads for a definite time fixed by the law. The Government owes the railroads certain amounts of money, those amounts to be determined by the Railroad Administration in the course of the settlements. They have settled some of them in full. This legislation attempts to dispose of securities which the Government now holds to private individuals and with the money thus secured to settle with the railroads. As I understand it, that is the sum and substance of the legislation. What I am curious to know is, what effect extraneous matters would have upon that situation?

Senator LA FOLLETTE. That is not the issue, as I understand it. Broadly stated, I think this is the proposition: The railroad companies are indebted to the Government in a very large sum. The Government owes the railroads. This legislation proposes that the Government shall not collect from the railroads the amount the roads owe the Government, but that it shall accept securities the payment of which will be deferred for some time and accept them under the conditions laid down in this bill, which I think is certain to leave the Government in the possession of securities that may be of little value, and that the Government is to pay money out of the Treasury to the railroads upon the amounts which the several railroads claim the Government owes them.

The railroads are here seeking through this proposed legislation the favor of an extension of time upon what they owe the Government, although the Government is in need of money quite as much as the railroads can be. The Government must wait, if this bill passes, for the sums that are due from the railroads, but it is to be required to pay to the railroads upon their claims amounts of money which in the aggregate is a very large sum.

I think this bill raises the question as to the honest and economical operation of the transportation lines in compliance with existing law, which law, I believe, that the testimony taken by the Interstate Commerce Commission and now in their files will show that they have violated the law, and that they have wholly failed to operate their roads honestly and economically.

This raises two issues:

- (1) That they have no claim upon the Government for favors and
- (2) That it raises the question of the condition of their finances and whether they actually need the credit of the Government. I think the testimony very pertinent.

Senator TOWNSEND. This bill does not provide in reference to settlements with the railroads, in the taking of securities, anything new. That is already in the law. The settlement proposition is already provided for by statute, and that is going on, and we are taking securities in compliance with the law. The only question is whether we shall handle those securities, hold those securities—and some of them I think can be sold now by the President, but there is no provision under law at present for using the War Finance Corporation as a means of negotiating a sale of securities to the public, thus relieving the Government in the handling or holding of those securities; and if we can believe what the director general has said, with the exception of the New York, New Haven & Hartford securities, which were accepted by Mr. McAdoo or Mr. Hines

and are now in the possession of the Government, the securities are all good under ordinary conditions. The director general testified that he takes in no securities that he does not regard as good, and will take none other, whether this law is passed or not, as far as that is concerned.

Senator LA FOLLETTE. I think the answer to that, Mr. Chairman, if you will pardon me, is that if those railroad securities are good there is no reason why the railroads should not go out and negotiate them and get the money and pay what they owe to the Government.

Senator STANLEY. Do I understand the main purpose of this bill is to enable the War Finance Corporation to sell securities to the public? That is the hope of this bill, as I understand it. The purpose of this bill is to enable the War Finance Corporation to utilize \$400,000,000 or \$500,000,000 that has been turned over to it by the Federal Government for the purpose of purchasing railroad securities, to make money thus available, rather than to make a direct appropriation out of the Federal Treasury.

Senator LA FOLLETTE. The money is taken from the Treasury.

Senator STANLEY. The selling of the securities is the bouquet of the bill.

Senator POMERENE. If I may make a suggestion, Senator La Follette's motion as amended contemplates calling certain witnesses who want to be heard directly upon the merits of the bill pending before the committee. The other witness, Mr. List, if I have the name correctly, would make a statement and introduce testimony which has been taken on the subject of economies, etc., in railroad management. I can understand how that testimony would be very, very pertinent if we were passing upon the question as to whether there should be certain increases or decreases in the tariff rates, etc. It seems to me that the testimony of this last witness I named [Mr. List] might not be so very pertinent so far as the issue presented by this bill is concerned, and if the Senator [Senator La Follette] will divide his motion, I shall be very glad myself to vote to hear the other witnesses on the subject of the pending bill.

Senator LA FOLLETTE. I made a motion to hear Mr. Johnson first, but said I would follow that motion with a motion to take the testimony of Mr. Sheppard and another motion to take the testimony of Mr. List.

Senator POMERENE. I know that motion was made and then the suggestion was made that they all be included in the one motion in order to get a vote on the question.

Senator LA FOLLETTE. In order to get the matter clearly before the committee, I now move that we hear Mr. Johnson.

Senator POMERENE. And was it Mr. Sheppard that you included with him?

Senator LA FOLLETTE. Yes. I would then move to hear Mr. Sheppard.

Senator POMERENE. I shall be glad to vote to hear them; but in view of the statement made here, and I accept the statement as correct, that the Interstate Commerce Commission is investigating the other subject and have not come to any conclusion, it seems to me, as I view this legislation, it would be taking up our time unnecessarily to go into that matter in this connection. But I think these other witnesses ought to be heard.

Senator WATSON. Mr. Chairman, Senator La Follette said the other day he wanted to call a number of witnesses and go into the whole question of railroad management and mismanagement and profligacy. He stated this morning that one object in calling these witnesses was to show that they had squandered assets; that if they had not done that they would have some money with which to pay their bills. It is very manifest that the purpose in calling these witnesses is to go into that whole question. This committee held hearings for two months on that very subject and heard one side, and the labor side was to have been heard, and but for the illness of the chairman (Senator Cummins) would have been heard before this; and there is no question but that they will be heard and that the whole question will be gone into, for Senator Cummins has said if he is not able to attend some one else will preside, probably the present or acting chairman, and that the committee will go on with the hearings and go into the whole situation and find out the true conditions surrounding the railroads and whether other legislation is necessary in order for them to do the transportation business of the country. In view of that statement and intention why open up a problem of this kind on the pending bill? It seems to me it would not only be irrelevant but an actual waste of time.

Senator La Follette has made a motion that certain people be heard. In order that the question may be definitely before the committee I move as a substitute that the hearings be now closed.

Senator STANLEY. Mr. Chairman, I hope the Senator (Mr. Watson) will not insist upon that motion for—

Senator WATSON (interposing). The Senator does insist upon the motion, and strenuously.

Senator STANLEY. I am deeply sensible of the fact that the railroads of this country are more than probably in such condition that they need, that many must have, aid from the Federal Government. We are standing between Federal aid and Federal ownership, in a way; and as between the two extremes I should favor further aid to Federal ownership. But it seems to me it is perfectly manifest that the bill which has been lately passed to afford aid to the farmers is a promise "made to the ear and broken to the hope," if this bill passes in the form in which it is written. I am morally certain that the assets of the War Finance Corporation will be exhausted by the railroads and that the farmers will get what the little boy shot at. I am not in favor of taking moneys available to relieve the distressed condition of the agriculturists of this country and turning it over to the railroads of the country.

Mr. Chairman and gentlemen of the committee, this bill was not prepared by any Senator. This bill is not the expression of any popular demand. This bill is not the expression of the will of the Senate. This bill is brought in here by parties outside. It is what is called an administration measure. And I have heard so much about the will of the administration being carried into effect without the doting of an i or the crossing of a t, or an irrelevant suggestion by an insurgent Congressman or Senator who dares to be impertinent enough to express the opinion that the will of the powers that be might be better expressed in some other language, or their purposes better carried out in some other way. I for one have never been in favor of having the Senate or the Congress of the United States become the mute, docile, unthinking recorder of the Executive will; and for one I protest now against bringing bills into committees of this Senate already prepared, and after statements by those only who speak the language of the Administration, after that semblance of hearings to absolutely muzzle labor, ex-director generals, and secretaries of the Treasury, no matter what their knowledge, no matter what their experience, no matter what their patriotism, no matter what their point of view if they happen not to be in absolute and docile accord with a certain program. Not only shall their will not be carried into effect but their mouths must not be opened. I am against that sort of gag rule in committees, and am against it in the Senate, and I want to say that nothing will so tend to injure the cause of the railroads, and the railroads themselves can be guilty of no greater folly, than to lend their assistance to such rough rider and steam roller proceedings.

Senator TOWNSEND (presiding). Senator Stanley, speaking from my own experience I will say I have never heard that the President has even suggested that the bill prepared by the administration and presented to the Senate should be passed without the doting of an i or the crossing of a t; nor has the President ever intimated to me that such a resolution must be passed. He has simply, in his two talks with me, given me his views on this subject, a subject to which he has been giving a great deal of attention, and asked that the matter be brought up for consideration by the Senate. That is what the bill was introduced for. The hearings thus far held, as I understand it, and as stated before we ever took any testimony, were to make clear the object and intention of the bill. I explained that I called two witnesses from the administration on the question of the situation if the bill should become a law, to get their views. That is all the testimony was taken for. There was some cross-examination in which some other matters were brought out, but they were here to explain just what the bill is and to leave to the committee to determine whether it would proceed to consider it or not, or whether it would proceed to hold hearings, and to what extent we would go if we held hearings. And you know how much these matters are delayed sometimes if general hearings are begun. When you take up one side you have to hear the other side. If you hear the Interstate Commerce Commission you must hear the railroads, and labor, and business men who may want to be heard telling why they want this legislation, the creditors of the railroads. If you go into the matter from one side I can not see any place to stop with reference to hearings. So far as I am concerned if anybody has got any light to throw on the merits of this bill and will confine himself to the bill, as the witnesses who have already appeared have done—except they have been drawn out into a wider field by questions propounded by members of the committee—I certainly have no objection. But I can not see any use of going into general hearings, and, as I have already stated, if you start with one side you must hear others.

Gentlemen of the committee, if you are ready for the question it is—

Senator PITTMAN (interposing). Do I understand that this motion is going to close any further consideration of this bill?

Senator TOWNSEND. Oh, no.

Senator WATSON. It will put the committee in position to go on and consider the bill.

Senator PITTMAN. I understood the motion to be that the matter be closed?

Senator WATSON. Oh, no; it was to close the hearings and give the committee an opportunity to go ahead and consider the bill.

Senator PITTMAN. I understood first that that was what Senator Watson's motion was.

Senator WATSON. Well, if that was it, I withdrew that.

Senator PITTMAN. I have some suggestions to make to the committee.

Senator TOWNSEND. They will be considered.

Senator PITTMAN. Then I have nothing further to say on this subject.

Senator TOWNSEND. The clerk will call the roll.

Senator PITTMAN. I have delivered to the acting chairman a letter addressed to Chairman Cummins, from Senator Smith, of South Carolina, asking the committee to permit Senator Stanley or myself to cast his vote on this bill. I would like to know what action will be taken on that matter?

Senator KELLOGG. It was objected to the other day. There was objection made to permitting anybody not present to have his vote cast.

Senator PITTMAN. I have no objection to any member of the committee casting the vote of any other member absent if the member present knows how he would vote. Senator Smith in his letter says he is unavoidably required to be absent and asks the committee to permit Senator Stanley or myself to cast his vote, he having discussed the matter with us and given us his views.

Senator STANLEY. As I understand it if Senator Smith were present he would vote in favor of calling Mr. McAdoo.

Senator PITTMAN. Yes; and he would also vote against closing the hearings at this time, and would vote against reporting the bill out in its present form.

Senator KELLOGG. I object to anyone casting Senator Smith's vote in his absence.

Senator TOWNSEND. Even if that were permitted the vote would be offset by that of Senator Meyers. He did not ask me to vote for him, but he wanted to vote for the bill as presented and wanted it done immediately. I would not feel like casting his vote even if there were no objection because I have his views only in a general letter. But if present I think he would vote as I have stated. I do not know what Senator Underwood would do if he were here.

The clerk will call the roll.

Senator POMERENE. The vote is being taken on Senator Watson's substitute. I want my vote considered in the light of what I have said.

The roll was called and the vote announced by the clerk as follows: Senator Frelinghuysen, aye; Senator Kellogg, aye; Senator La Follette, no; Senator McLean, aye; Senator Poindexter, aye; Senator Pomerene, no; Senator Pittman, no; Senator Stanley, no; Senator Townsend, aye; Senator Watson, aye.

Senator TOWNSEND. The vote stands 6 ayes and 4 noes. The substitute is carried.

Senator WATSON. I now move that the committee proceed to a consideration of the bill.

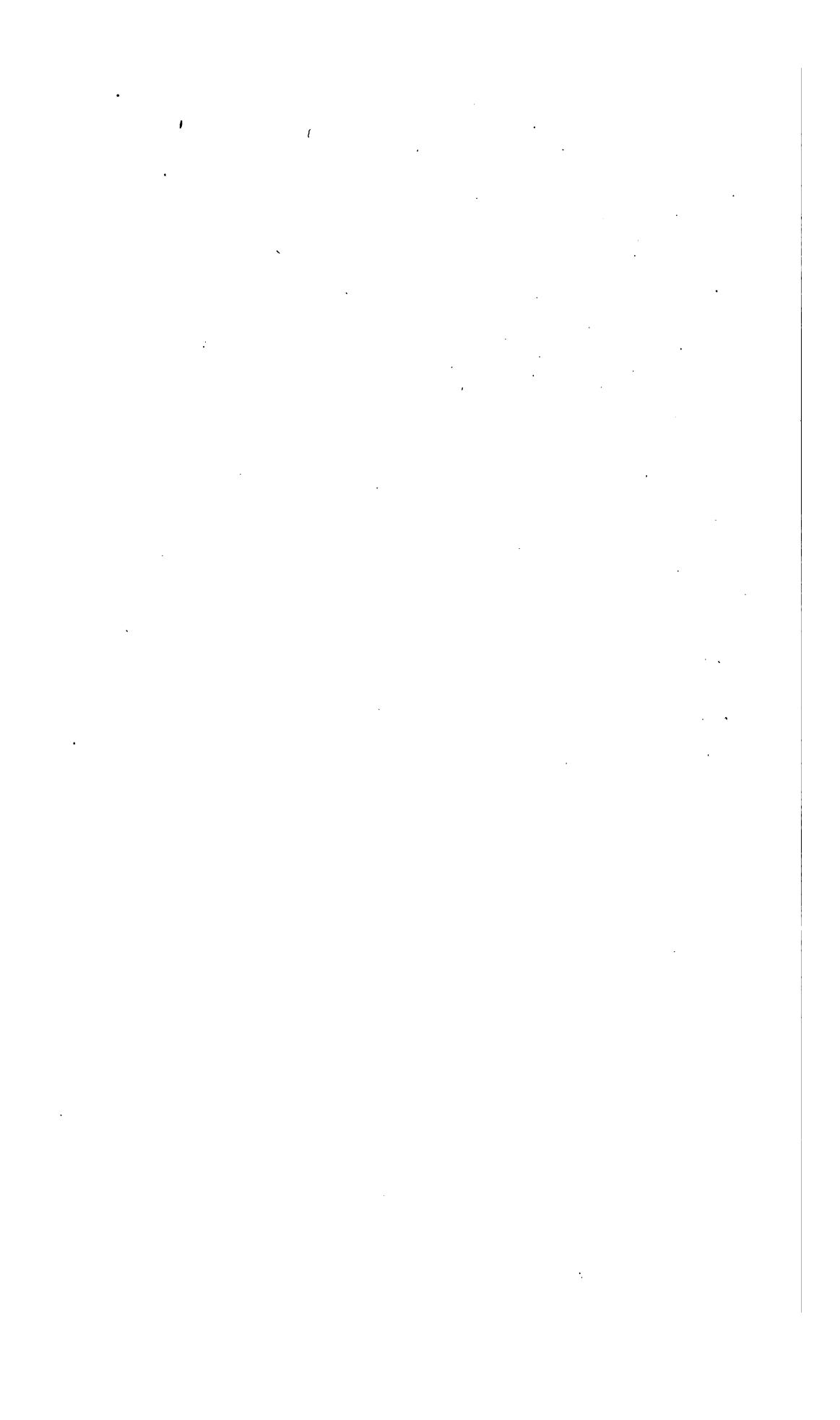
Senator KELLOGG. I second the motion.

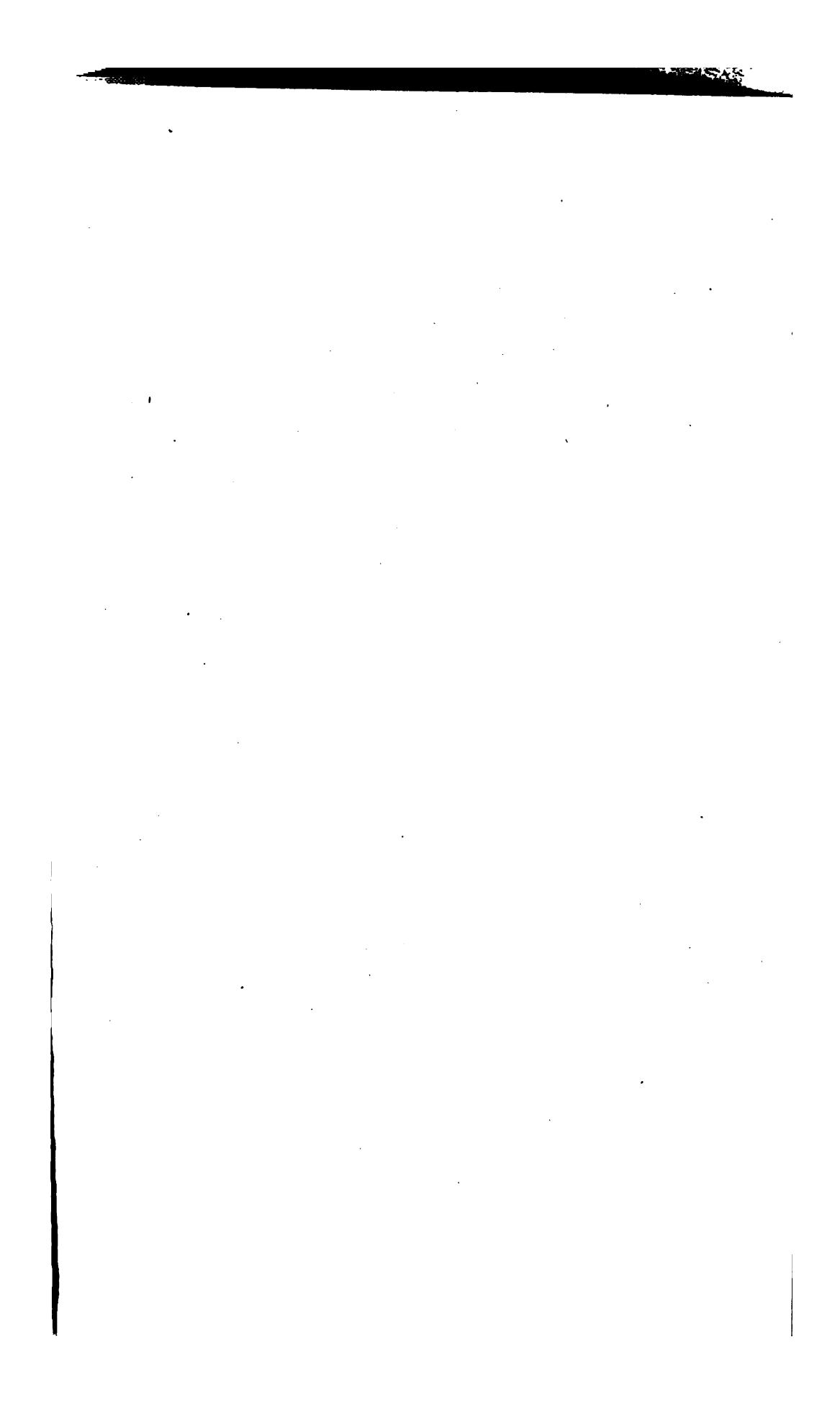
Senator TOWNSEND. Those in favor of the motion will say aye [a number of ayes], and those opposed will say no [several noes]. The ayes seem to have it. [A pause.] The ayes have it and the committee will proceed to consider the bill.

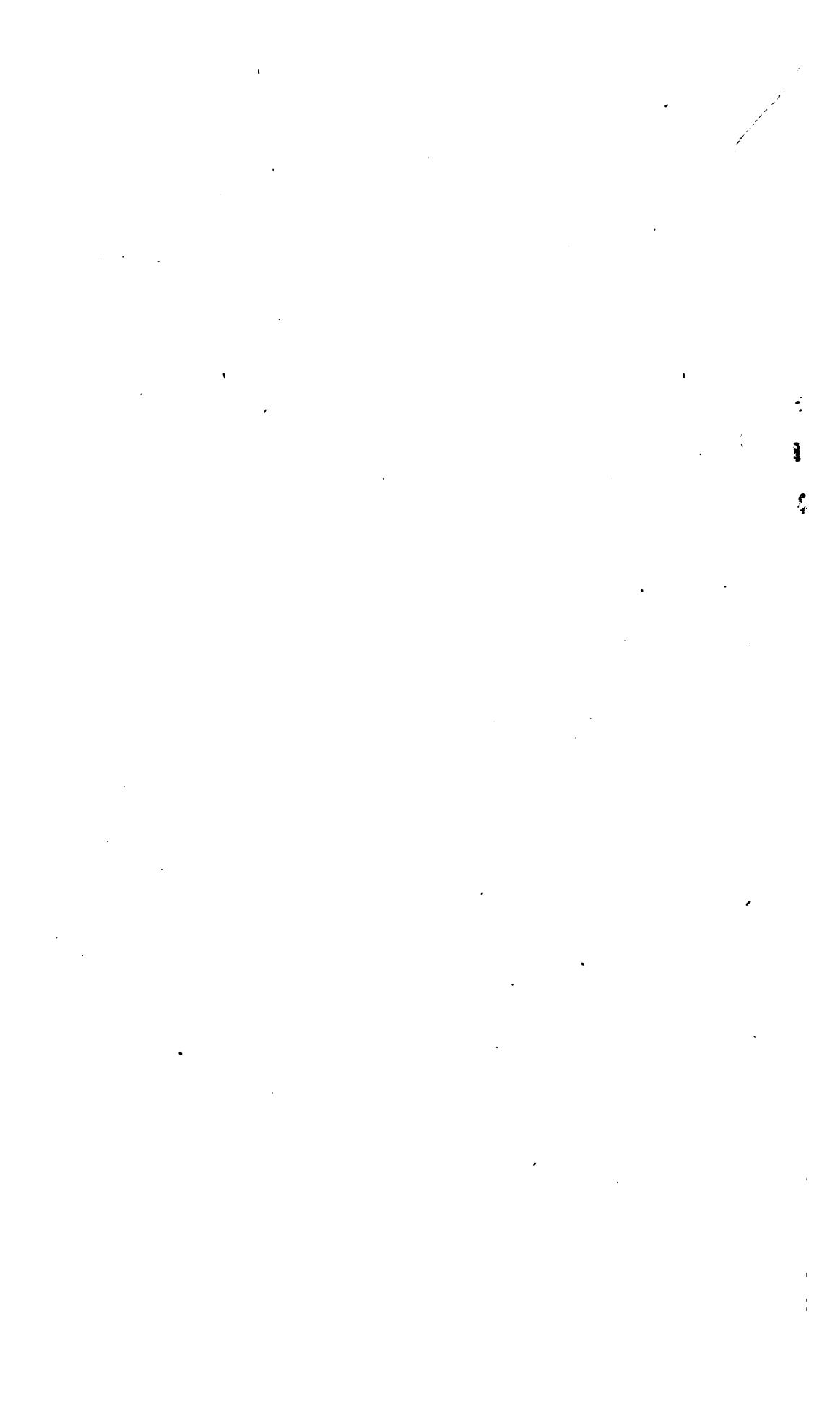
Senator POMERENE. I want to make a very brief statement in view of something contained in the newspapers the other day after I had cross-examined Mr. Eugene Meyer. The papers reported me as saying that I regarded this bill as a handout to the railroads. I made no such statement, and no statement which could by any possibility be distorted into the language which was put in my mouth by the newspapers. I had heard it designated as a handout to the railroads, and, in substance, without repeating the statement that led up to the final question, I put the question in a general way as to whether this was in any wise a handout, to which Mr. Meyer, in substance, said it was not.

Senator TOWNSEND. The committee will now proceed to consider the bill.

(The proceedings of the committee during the consideration of the bill were not reported.)







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